

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

STATE OF INDIANA

SINGLE AUDIT REPORT

July 1, 2004 to June 30, 2005

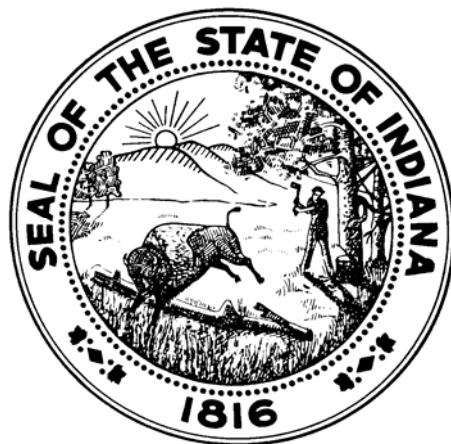


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STATE OF INDIANA

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INDEPENDENT AUDITOR'S REPORT

TO: The Honorable Mitchell E. Daniels, Jr.,
The Members of the General Assembly, and
The Citizens of the State of Indiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Indiana, as of and for the year ended June 30, 2005, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Indiana's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain component units of the State, as discussed in Note I(A), which represent 7.1% and .9% of the assets and revenues of the governmental activities, 80.9% and 9.9% of the assets and revenues of the business-type activities, 25.9% and 9.2% of the assets and revenues of the colleges and universities discretely presented component units and 100% of the assets and revenues of the governmental and proprietary discretely presented component units. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us and, our opinions, insofar as they relate to those units, are based upon the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Indiana as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note IV(G) to the financial statements, the State of Indiana has restated certain beginning fund balances and net assets. The Housing Finance Authority, a discretely presented component unit, reports on a December 31, 2004, year-end.

INDEPENDENT AUDITOR'S REPORT
(Continued)

The Management's Discussion and Analysis, schedule of funding progress for employee retirement systems and plans and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated December 27, 2005, on our consideration of the State of Indiana's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

STATE BOARD OF ACCOUNTS

December 27, 2005



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: The Honorable Mitchell E. Daniels, Jr.,
The Members of the General Assembly, and
The Citizens of the State of Indiana

We have audited the financial statements of the State of Indiana, as of and for the year ended June 30, 2005, and have issued our report thereon dated December 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of Indiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Indiana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Indiana's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2003-CAFR-1 and 2005-CAFR-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information of the State of Indiana's management, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than the specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts.

STATE BOARD OF ACCOUNTS

December 27, 2005

STATE OF INDIANA
Management's Discussion and Analysis
June 30, 2005

The following discussion and analysis of the State of Indiana's financial performance provides an overview of the State's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the transmittal letter at the front of this report and the State's financial statements, which follow this section. Because of prior period adjustments and reclassifications as described in Note IV(G) in the Notes to the Financial Statements, fiscal year (FY) 2004 numbers have been restated.

Financial Highlights

- For FY 2005, on a government-wide basis, the assets of the State of Indiana exceeded its liabilities by \$13.3 billion. This compares with \$13.6 billion for FY 2004, as restated. Of this amount, \$3.5 billion may be used to meet the government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$836.5 million, or 10.6% of the total general fund expenditures.
- On a government-wide basis for the primary government, the State incurred expenses net of program revenue of \$13.0 billion, which are partially offset by general revenues and transfers of \$12.8 billion, giving a decrease in net assets of \$253.2 million. The financial position of the State has deteriorated as can be seen in this decrease in net assets. This compares with a decrease in net assets of \$733.6 million for FY 2004, as restated.
- Indiana is coming out of the economic recession. Although the overall unemployment rate for Indiana increased from 5.1% to 5.2%, service-producing employment increased by 1.4% in Calendar Year (CY) 2004. The national economy has improved. For CY 2004 Gross Domestic Product (GDP) grew at a rate of 4.2%. Growth in the first half of CY 2005 was at a 3.6% rate of growth. This has had a marked effect on Indiana. Gross State Product for Indiana was at \$227.6 billion in CY 2004 as compared to \$213.3 billion in CY 2003. As can be seen in this CAFR, economic growth has resulted in increased income tax and sales tax collections for the State.
- The Indiana Economic Development Corporation (IEDC) is a new State agency created to replace the Commerce Department. As of October 2005, the IEDC had completed 114 projects which represent \$3.6 billion in capital investment and expect to provide 13,800 jobs for the State over the next two to ten years. In October 2004, the State had completed 67 projects that accounted for \$1.9 billion in capital investment.
- State government cut its workforce during CY 2005. As can be seen by the employee count chart on the next page, full time headcount decreased from 39,502 in December of 2004 to 36,708 in December of 2005. This was a 7.1% decrease, most of it in employees under the governor's authority. This was offset somewhat by the increase in employees other than full time. The National Guard increased from 866 in December, 2004, to 1,861 in December, 2005, due to the Iraq war (see page 246).
- General revenue for the primary government increased by \$306.2 million, or 2.4%, from FY 2004. Income taxes and sales taxes were the driving force behind this increase, with growth rates of 10.2% and 5.7%, respectively. These grew in line with the economic growth progress of the State.
- The State of Indiana is rated AA with a positive outlook by Standard & Poor's (on a scale where AAA is the best). The State's credit outlook was upgraded from AA with a stable outlook to AA with a positive outlook in June 2005. According to Standard & Poor's, the change in State's credit outlook "reflects the State's early economic stabilization and improving position that translated into stronger tax growth." As of December 2, 2005, Standard & Poor's rated a total of 231 bonds issued by the State's component units. Out of 231 bonds, 72% of them were rated AAA, 3% AA+, and 10% were rated AA-. Each bond issue of the State's component units is rated separately by Moody's and Fitch. Moody's rates 213 bond issues of the State's component units whereas Fitch rates 191 bond issues. Out of a total of 213 bond issues rated by Moody's, 163 of them were rated Aaa (on a scale where Aaa is the best). As for Fitch, 183 of 191 bond issues were rated AAA (on the scale where AAA is the best).

Key Economic Indicators

	<u>Dec 31, 2004</u>	<u>Dec 31, 2003</u>	<u>% Change</u>
Total Good and Service Employment	2,972,600	2,933,200	1.3%
Service-Producing Employment	2,242,400	2,212,200	1.4%
Goods-Producing Employment	730,200	721,000	1.3%
Unemployment Rate	5.2%	5.1%	0.1%
Median Household Income	¹ \$ 42,946	\$ 43,341	-0.9%

¹ Two year average median money income. The 2-year-average median is the sum of two inflation-adjusted single-year medians divided by 2.

Sources: Bureau of Labor Statistics, Current Employment Statistics Series and Local Area Unemployment Statistics, US Census Bureau, Income, Poverty, and Health Coverage in the United States: 2004.

Salaries and benefits for State employees represent approximately 9-10% of governmental fund expenditures. The following table shows a five year history of the count of full time State employees.

Full Time State Employees Paid Through The Auditor of State's Office

	<u>Governor's Authority</u>	<u>Judiciary</u>	<u>Other Elected Officials</u>	<u>On Disability Leave</u>	<u>Total</u>
2001	36,134	862	1,018	1,263	39,277
2002	35,907	869	1,021	1,315	39,112
2003	35,753	899	1,039	1,217	38,908
2004	36,276	899	1,039	1,288	39,502
2005	33,417	896	1,095	1,300	36,708

For more information on people paid through the Auditor of State's Office, please see pages 244-248 in the Statistical Section.

Overview of the Financial Statements

This Financial Section consists of four parts: management's discussion and analysis (this part), the basic financial statements, required supplementary information, and other supplementary information. The basic financial statements include two kinds of statements that present different views of the State. The first two statements are government-wide financial statements that provide both long-term and short-term information about the State's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the State government, reporting the State's operations in more detail than the government-wide statements.

- The governmental fund statements tell how general government services such as public safety,

education, and welfare were financed in the short term as well as what remains for future spending.

- Proprietary fund statements offer short and long-term financial information about the activities the government operates like businesses, such as the State Revolving Fund and the Unemployment Compensation Fund.
- Fiduciary fund statements provide information about the financial relationships in which the State acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong, such as the retirement plan for the State's employees.

The financial statements also include notes that explain some of the information in the financial statements and

provide more detailed data. The statements are followed by a section of *required supplementary information* and *other supplementary information* that further explain and support the information in the financial statements.

Government-wide Financial Statements

The government-wide financial statements report information about the State as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the State's net assets and how they have changed. Net assets, the difference between the State's assets and liabilities, is one way to measure the State's financial health, or position. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the State of Indiana is improving or deteriorating. To assess the overall health of the State, additional non-financial factors should be considered, such as changes in the State's tax base, the condition of the State's roads and the State's student population. The government-wide financial statements of the State are divided into three categories:

- **Governmental activities.** Most of the State's basic services are included here, such as the State's roads and bridges, and health and environmental programs. State sales and income taxes and federal grants finance most of these activities.
- **Business-type activities.** The State provides goods and services through these activities that are financed or recovered primarily through fees and user charges. The State Revolving Fund and the Unemployment Compensation Fund are included here.
- **Discretely Presented Component Units.** These are legally separate discretely presented entities for which the State is financially accountable. These include, among others, the Indiana Bond Bank, the Board for Depositories, the Indiana Housing Finance Authority, and colleges and universities that receive State funding.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds, not the State as a whole. Funds are accounting devices that the State uses to keep track of specific sources of

funding and spending for particular purposes. The State of Indiana uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The State has three kinds of funds: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds.** Most of the State's basic services are included in governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs.

Relationship and Reconciliation. Because the information provided in the governmental funds statements does not encompass the additional long-term focus of the government-wide statements, reconciliation pages are provided. On the page following each governmental fund's financial statement, these reconciliations explain the differences between the government-wide and the fund financial statement. Government-wide statements use full accrual accounting. Revenues are recognized when they are earned and expenses are recognized as soon as the liability is incurred, regardless of the timing of related cash inflows and outflows. Governmental fund financial statements use the modified accrual basis of accounting. Revenues are recognized when earned so long as they are collectible within the current period or soon enough afterwards to pay liabilities of the current period. Debt service payments and a number of specific accrued liabilities are recognized as expenditures when payment is due because that is when they are normally liquidated with expendable available financial resources.

Non-current assets such as infrastructure, land, and property, plant and equipment appear on the government-wide statements but not on the governmental fund statements where they are expensed as acquired rather than capitalized. Non-current liabilities such as revenue bonds payable and net pension obligations also appear on the government-wide statements but not on the fund statements. Internal service funds are included as part of the governmental activities in the government-wide statements but not the governmental fund financial statements because they provide services to the governmental funds.

2. Proprietary funds. Services for which the State charges customers a fee are generally reported in proprietary funds. These funds use the economic resources measurement focus and the accrual basis of accounting. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. In fact, the State's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information such as cash flows. The State uses internal service funds (the other type of proprietary fund) to report activities that provide supplies and services for the State's other programs and activities. An example would be the State Office Building Commission.

3. Fiduciary funds. The State is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The State is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds use the economic resources measurement focus and the accrual basis of accounting. All of the State's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the State's government-wide financial statements because the State cannot use these assets to finance its operations.

Financial Analysis of the State As a Whole

Net Assets

The following is condensed from the Statement of Net Assets:

State of Indiana Condensed Schedule of Net Assets (in millions of dollars)						
	Primary Government					
	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$ 7,683.5	\$ 8,271.0	\$ 2,679.7	\$ 2,760.4	\$ 10,363.2	\$ 11,031.4
Capital assets	10,836.7	10,715.0	11.9	12.0	10,848.6	10,727.0
Total assets	<u>18,520.2</u>	<u>18,986.0</u>	<u>2,691.6</u>	<u>2,772.4</u>	<u>21,211.8</u>	<u>21,758.4</u>
Current liabilities	3,884.1	4,191.3	91.7	87.1	3,975.8	\$ 4,278.4
Long-term liabilities	2,544.3	2,404.7	1,435.7	1,480.2	3,980.0	3,884.9
Total liabilities	<u>6,428.4</u>	<u>6,596.0</u>	<u>1,527.4</u>	<u>1,567.3</u>	<u>7,955.8</u>	<u>8,163.3</u>
Net assets:						
Invested in capital assets, net of related debt	8,678.8	8,833.9	11.9	12.0	8,690.7	\$ 8,845.9
Restricted	624.1	580.9	452.7	534.1	1,076.8	1,115.0
Unrestricted	2,788.9	2,975.2	699.6	659.0	3,488.5	3,634.2
Total net assets	<u>\$ 12,091.8</u>	<u>\$ 12,390.0</u>	<u>\$ 1,164.2</u>	<u>\$ 1,205.1</u>	<u>\$ 13,256.0</u>	<u>\$ 13,595.1</u>

At the end of the current fiscal year, unrestricted net assets for governmental activities were \$2.8 billion, or 23.1% of the total governmental activities' net assets, as compared to \$3.0 billion, or 24.0%, for FY 2004.

The decline in unrestricted net assets for governmental activities was \$186.3 million. This is explained by the change in net assets which is analyzed on the next page.

Unrestricted net assets were \$699.6 million or 60.1% of net assets for business-type activities, as compared to

\$659 million or 54.7% in FY 2004.

The State maintains a Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund"). This fund was established to assist in stabilizing revenue of the State's General Fund during periods of economic recession. In other words, in good times the balance in the fund should increase, and in bad times, the money can be used to offset deficits. The fund had available assets of \$316.5 million or 11.3% of the total governmental activities unrestricted net assets.

Changes in Net Assets

The following is condensed from the Statement of Activities:

State of Indiana Condensed Schedule of Change in Net Assets (in millions of dollars)						
	Primary Government					
	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues						
Program revenues:						
Charges for services	\$ 1,306.1	\$ 1,206.1	\$ 707.0	\$ 95.2	\$ 2,013.1	\$ 1,301.3
Operating grants and contributions	7,388.8	7,469.0	-	122.2	7,388.8	7,591.2
Capital grants and contributions	15.6	14.1	34.7	62.8	50.3	76.9
General revenues						
Individual and corporate income taxes	5,127.8	4,653.8	-	-	5,127.8	4,653.8
Sales taxes	4,963.3	4,694.9	-	-	4,963.3	4,694.9
Other	2,730.2	2,755.5	33.6	444.5	2,763.8	3,200.0
Total revenues	<u>21,531.8</u>	<u>20,793.4</u>	<u>775.3</u>	<u>724.7</u>	<u>22,307.1</u>	<u>21,518.1</u>
Program Expenses						
General government	3,951.2	4,149.8	-	-	3,951.2	4,149.8
Public safety	1,226.8	1,211.8	-	-	1,226.8	1,211.8
Health	426.6	413.3	-	-	426.6	413.3
Welfare	7,312.9	7,039.6	-	-	7,312.9	7,039.6
Conservation, culture and development	516.1	511.8	-	-	516.1	511.8
Education	6,599.3	6,360.3	-	-	6,599.3	6,360.3
Transportation	1,589.2	1,641.6	-	-	1,589.2	1,641.6
Interest expense	121.2	94.9	-	-	121.2	94.9
State revolving fund	-	-	72.4	61.0	72.4	61.0
Unemployment compensation fund	-	-	713.1	868.9	713.1	868.9
Other	(0.3)	-	31.8	39.0	31.5	39.0
Total expenses	<u>21,743.0</u>	<u>21,423.1</u>	<u>817.3</u>	<u>968.9</u>	<u>22,560.3</u>	<u>22,392.0</u>
Excess (deficiency) before transfers	(211.2)	(629.7)	(42.0)	(244.2)	(253.2)	(873.9)
Transfers	(1.0)	135.2	1.0	5.1	-	140.3
Change in net assets	<u>(212.2)</u>	<u>(494.5)</u>	<u>(41.0)</u>	<u>(239.1)</u>	<u>(253.2)</u>	<u>(733.6)</u>
Beginning net assets, as restated	12,304.0	12,884.5	1,205.2	1,444.2	13,509.2	14,328.7
Ending net assets	<u>\$ 12,091.8</u>	<u>\$ 12,390.0</u>	<u>\$ 1,164.2</u>	<u>\$ 1,205.1</u>	<u>\$ 13,256.0</u>	<u>\$ 13,595.1</u>

Governmental Activities

Expenses exceeded program revenues by \$13.0 billion. General revenues and transfers were \$12.8 billion, leaving a decrease in net assets of \$212.2 million, which is 1.0% of total revenues. Last year, the State had a decrease in net assets of \$494.5 million, which was 2.4% of total revenues.

Total revenues increased by \$738.4 million from FY 2004 to FY 2005. This is mainly due to increases in individual and corporate income taxes of \$474 million and increases in sales taxes of \$268.4 million. These taxes are both based on income and spending in the economy. The Indiana economy has improved, as described on page 6, causing these increases.

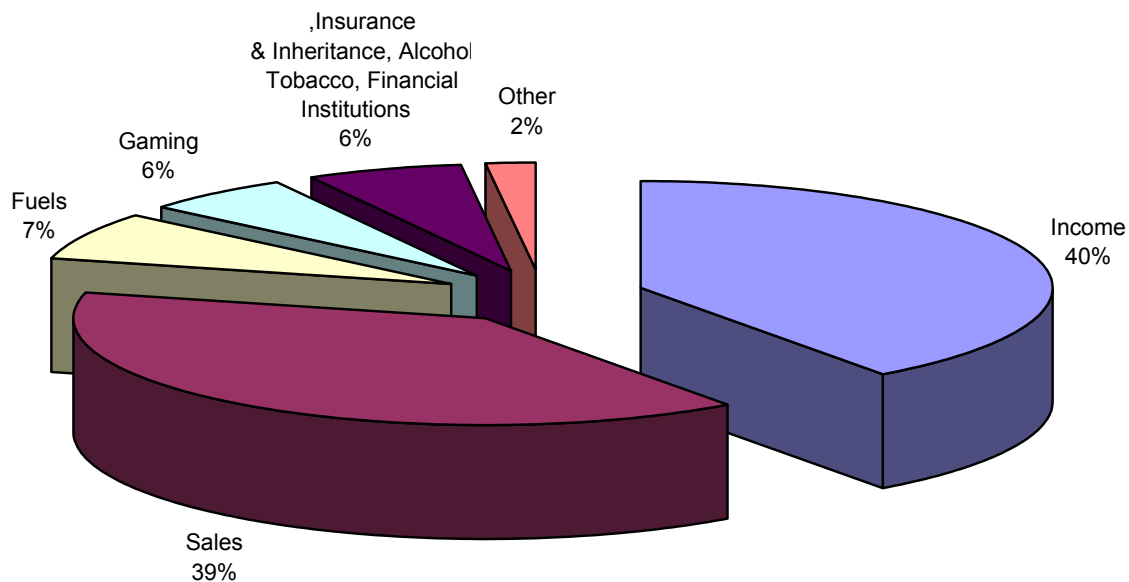
Total expenses increased by \$319.9 million, which was less than the growth in revenues. The increase in

expenses was caused by increases in welfare and education spending of \$273.3 million and \$239 million, respectively. These were offset by a decrease in general government spending of \$198.6 million.

Net assets for governmental activities decreased by \$212.2 million. The State Highway Department Fund, a special revenue fund, caused \$90.0 million of this decrease. It kept higher levels of spending although federal and State grants decreased. The Medicaid Indigent Care Fund, a special revenue fund, had net spending on welfare of \$68.6 million. The Tobacco Settlement Fund, a special revenue fund, had a decrease in net assets of \$36.2 million, because it liquidated investments to spend increased amounts for projects such as 21st Century Research and Technology.

Tax revenues for governmental activities were broken down as follows:

Tax Revenues - Governmental Activities

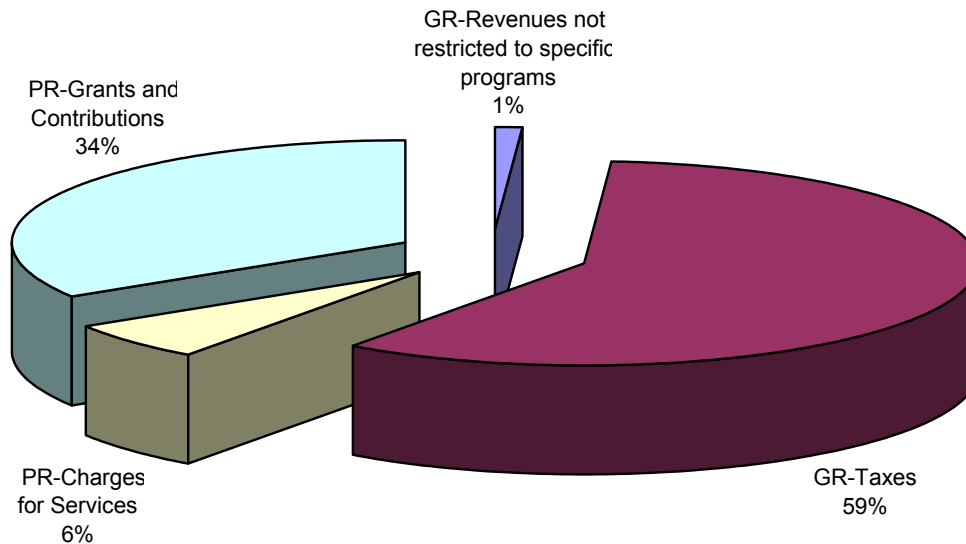


Tax revenues of \$12.7 billion represent 59.0% of total revenues for governmental activities. This compares to \$12.0 billion in FY 2004 or 57.5% of total revenues in FY 2004. Program revenues accounted for \$8.7 billion or 40% of total revenues. In FY 2004, program revenues accounted for \$8.7 billion or 42% of total

revenues. General revenues other than tax revenues were \$117 million or 0.5% of total revenues. Of this \$117 million, \$81.6 million was investment earnings, which increased from \$43.1 million in FY 2004 due to rising interest rates.

Total revenues for governmental activities were broken down as follows:

Revenues to Support Governmental Activities



PR = program revenues
GR = general revenues

Total revenues were 99.0% of expenses, as compared to 97.1% in FY 2004, which explains most of the decreased decline in net assets from FY 2004 to FY 2005. Revenues grew faster than expenses, but not enough to cover them in FY 2005.

The largest portion of the State's expenses is Health and Welfare, which is \$7.7 billion, or 36% of total expenses. This compares with \$7.5 billion, or 35% of total expenses in FY 2004. 68% is funded through operating grants, with the majority of the remainder funded from general revenues. Some of the major expenses were Medicaid assistance, \$4.6 billion, Medicaid indigent care trust, \$332 million, Medicaid administration, \$137.1 million, child care and development, \$127.2 million, and temporary aid to needy families assistance (TANF), \$117.5 million.

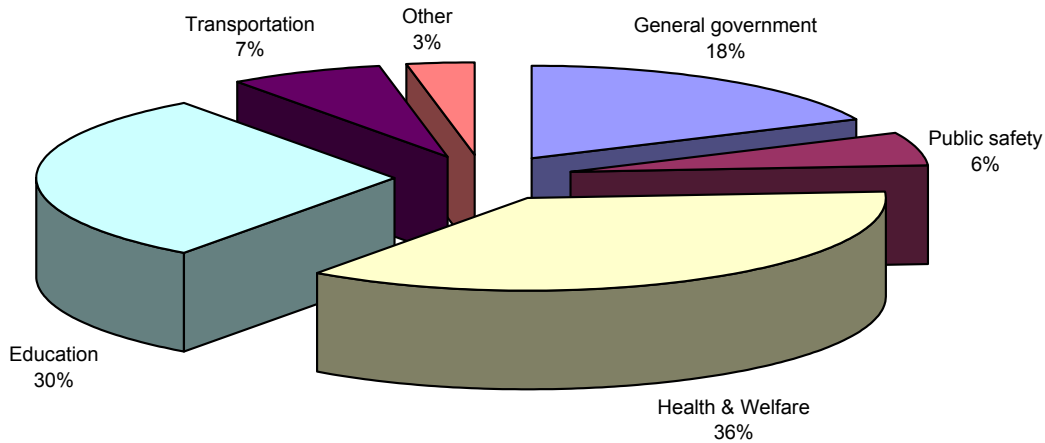
Education comprises 30%, or \$6.6 billion, of the State's expenses. In FY 2004, Education accounted for 30%,

or \$6.4 billion, of expenses. All but \$750.6 million of this is funded from general revenues. Some of the major expenses were tuition support, \$3.6 billion, State colleges and universities, \$1.3 billion, Teachers' Retirement Pension Fund, \$310.3 million, handicapped education, \$211.8 million, and the national school lunch program, \$144.7 million.

\$4.0 billion, or 18% of expenses, was spent for General Government. General Government comprised \$4.1 billion (19%) of expenses in FY 2004. General Government includes local distributions and money for State administration and those functions that serve the State as a whole. Examples of local distributions are the property tax replacement credit, which subsidizes local property tax collections, and the motor vehicle excise replacement credit, which subsidizes automobile license fees. Examples of State administration would be the executive branch of government, the State legislature, and the judiciary.

Total expenses for governmental activities were broken down as follows:

Expenses - Governmental Activities



Business-type Activities

Business-type activities represent 3.5% of the Primary Government's revenues and 3.6% of the expenses. The Unemployment Compensation Fund accounts for 84.5% of business-type activities' operating revenues and 87.6% of operating expenses. The change in net assets for business-type activities was a decline of \$41.0 million. The Unemployment Compensation Fund collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals. These benefits paid exceeded

revenue in the fund by \$81.4 million. The unemployment compensation benefits expense was caused by the increased unemployment rate in Indiana as mentioned earlier. At the same time, there was increased capital contributions revenue in the State Revolving Fund of \$34.7 million. The increased State Revolving Fund revenue was due to grants from the Environmental Protection Agency (EPA) for qualified wastewater and drinking water projects and other program purposes

Net Cost of Primary Government (in millions)				
	June 30, 2005	June 30, 2004	% change	
Governmental Activities:				
General government	\$ 3,286.5	\$ 3,646.3	-9.9%	
Public safety	495.4	366.5	35.2%	
Health	116.5	146.3	-20.4%	
Welfare	2,207.1	1,936.4	14.0%	
Conservation, culture, and development	183.3	196.1	-6.5%	
Education	5,848.7	5,641.9	3.7%	
Transportation	774.0	705.5	9.7%	
Other	121.2	94.9	27.7%	
Business-type Activities:				
State Revolving Fund	(38.6)	(67.2)	-42.6%	
Unemployment Compensation Fund	113.7	746.7	-84.8%	
Other	0.5	9.3	-94.6%	
TOTAL	\$ 13,108.3	\$ 13,422.7	-2.3%	

This schedule shows the net expense (revenue) attributable to each function of government. Each function of Indiana government is either self-supporting (a negative number) or requires additional general revenues to cover expenses (a positive number).

Financial Analysis of the State's Funds

The following is an analysis of the State's major governmental funds. Please note that transfers in and transfers out for these funds are explained in much greater detail in the Notes to the Financial Statements IV(B).

General Fund

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government which are not required to be accounted for in another fund. The fund balance of the General Fund at June 30, 2005 was \$1,239.2 million, which is 36.4% of assets. This compares to a fund balance at June 30, 2004 of \$1,142.7 million, which was 32.7% of assets. This indicates that the State's financial position in the General Fund is better than the prior year by \$96.5 million. The fund balance of \$1,239.2 million is composed of reserves of \$402.7 million and unreserved of \$836.5 million. Major reserves are:

- Encumbrances of \$34.2 million, which is money set aside to pay for future obligations.
- Loans of \$73.9 million, which consists of \$23.7 million in loans to entities outside the primary government and \$50.2 million in interfund loans.
- Tuition support of \$290.5 million, which is money set aside for distributions to schools.

The State calculates a cash basis surplus balance monthly. The year-end surplus balance is combined with estimated revenue forecasts to assess and determine the State's budget. This surplus balance is contained in the General Fund. As of June 30, 2005, the surplus balance was \$749.7 million. The balance increased by \$244.5 million from the June 30, 2004 balance of \$505.2 million. This surplus balance is composed of:

- \$290.5 million tuition support, which is money set aside to pay for distributions to schools.
- \$316.5 million rainy day fund, which is to assist in stabilizing revenue during periods of economic recession and is part of designated unreserved.
- \$118.8 million, which represents the excess of revenues over expenditures.
- \$24.0 which represents the reserve for Medicaid.

The \$118.8 million is on a cash basis. Accrual adjustments of \$102.2 million reconcile this to the General Fund unreserved, undesignated fund balance on a GAAP basis of \$221.0 million. For more information on the cash basis surplus, see page 180 in the Statistical Section. The unreserved, undesignated fund balance of \$221.0 million plus the unreserved fund

balance designated for appropriations of \$219.5 million, plus the unreserved fund balance designated for allotments of \$396.0 million give the total unreserved fund balance of \$836.5 million. This ties to the balance sheet for the General Fund. For more information on designations of unreserved fund balance, see the chart in the Notes to the Financial Statements III(C).

The General Fund's revenues increased 7.2%, or \$570.0 million, from FY 2004, primarily due to a 13.3% increase, or \$579.1 million, in income tax revenue and a 5.7% increase, or \$128.1 million, in sales tax revenue. Revenue increases in income taxes and sales taxes were primarily caused by an improving Indiana economy. The General Fund's expenditures increased by 3.0%, or \$229.7 million, from FY 2004. Increased expenditures were caused by an increase of \$120.6 million in distributions to the Local Option Income Taxes (LOIT) Fund, an agency fund, an increase of \$44.0 million in distributions to the State Teachers' Retirement Fund, an increase of \$12.7 million in distributions to Ivy Tech Community College, and an increase in distributions to Indiana University – Purdue University Indianapolis (IUPUI) in the amount \$6.9 million. There were increased expenditures for testing and remediation in the Department of Education of \$5.6 million and increased expenditures for water, wastewater, and related in the Department of Natural Resources of \$5.4 million.

The General Fund had transfers in of \$2.5 billion compared to \$2.6 billion in FY 2004. Transfers out were \$3.1 billion which was essentially the same as FY 2004. More detail on these transfers can be found in the Notes to the Financial Statements IV(B). Overall, the improved position of the General Fund in the amount of \$96.5 million can be attributed to an improved economy and restrained increases in spending as outlined above.

Motor Vehicle Highway Fund

The Motor Vehicle Highway Fund receives portions of gas and special fuel tax, motor vehicle registration fees, the motor carrier surtax, federal revenue, and other revenues. These are distributed to cities and towns, counties and the State Department of Transportation and are used to help fund the State Police, the Bureau of Motor Vehicles, the Department of Revenue and others. The fund collected \$482.1 million in taxes vs \$478.4 million in FY 2004, \$52.8 million in International Registration Plan (IRP) fees from motor carriers vs \$56.9 million in FY 2004, \$19.5 million in federal grants vs \$17.2 million in FY 2004, and \$16.6 million in other fees vs \$18 million in FY 2004. The fund received \$267.4 million in transfers in, which are taxes collected

in other funds. This compares to \$253 million in FY 2004. The fund distributed \$289 million to local units of government, \$180.8 million for public safety, and transferred \$363.9 million to other funds, which include the Department of Transportation and the General Fund. These amounts compare to FY 2004 distributions of \$282 million to local units of government, \$189.1 million for public safety, and transfers of \$359.4 million to other funds. The change in fund balance from FY 2004 to FY 2005 was essentially flat at \$8.6 million.

Medicaid Assistance Fund

Medicaid is an insurance program for low-income people. It is jointly funded by the Federal government and the State. The Medicaid Assistance Fund received \$3.0 billion in Federal revenue as compared to \$3.3 billion in FY 2004. State funding comes through the \$1.7 billion in transfers in. Transfers out were \$83.3 million. The Fund distributed \$4.6 billion in Medicaid assistance. This is the same amount distributed in FY 2004. The change in fund balance from FY 2004 to FY 2005 was essentially flat at \$6.7 million.

Build Indiana Fund

The Build Indiana Fund receives revenues from the Hoosier Lottery through the State Lottery Commission, Riverboat Wagering Tax through the Indiana Gaming Commission, Horse Racing Pari-mutuel Wagering Tax through the Indiana Horse Racing Commission, and Charity Gaming Excise Tax through the Department of Revenue. The revenues are used to help fund Motor Vehicle Excise Tax Replacement, capital projects for local units of government, and grants for projects such as nanotechnology, libraries, museums and other education and technology grants.

The Build Indiana Fund received \$250.0 million in gaming revenues. The revenue is the same as FY 2004 because the General Assembly capped Build Indiana Fund revenue. The Build Indiana Fund received \$156.8 million from the State Lottery Commission. \$129.7 million of this was an actual cash distribution, while \$27.1 was accrued revenue. The Fund also received \$120.5 million in transfers in. The bulk of this, \$113.9 million, came from the Property Tax Replacement Fund. The Fund distributed \$5.0 million in grants to Purdue University for the nanotechnology building, \$3.5 million in grants to the Intelnet Commission for school and library internet connections, and \$1.25 million in grants to the Indiana State Library for the INSPIRE program. INSPIRE is a virtual library which offers electronic magazines, encyclopedias, and other resources to all Indiana residents. In addition, \$2.0 million in grants was distributed for a variety of other projects. Transfers out of the Fund were made up

of a \$236.2 million transfer to the Motor Vehicle Excise Replacement account in the General Fund. This transfer out is mandated by legislation and the amount is the same as FY 2004. The Build Indiana Fund's fund balance increased from \$23.2 million in FY 2004 to \$51.8 million in FY 2005 or \$28.2 million. The revenue accrual of \$27.1 million, resulting from changing the State Lottery Commission from a blended component unit to a discretely presented component unit was the cause of this change in fund balance.

State Highway Department Fund

The State Highway Department Fund was created to fund the construction, reconstruction, operation, maintenance, and control of State highways and tollways. The fund collected \$675.3 million in grants and received \$490.3 million in transfers in, which are taxes and revenues collected in other funds, compared with \$811.4 million and \$480.3 million in FY 2004, respectively. The fund expended \$1.3 billion during the year, compared with \$1.4 billion in FY 2004. The change in fund balance from FY 2004 to FY 2005 was a decline of \$90.0 million, caused by the decrease in federal and State grants.

Property Tax Replacement Fund

The Property Tax Replacement Fund collects sales taxes and receives as transfers from other funds, sales, income, and gaming taxes. These are dedicated to tuition support and to property tax replacement distribution to local units of government. This is to relieve the property tax burden for the citizens of Indiana who own property. In FY 2005, the fund collected \$2.5 billion in sales taxes, as compared to \$2.3 billion in FY 2004.

The fund received transfers in of \$580.9 million for income taxes and \$52.2 million in sales taxes collected in the General Fund. This compares to FY 2004 tax transfers of \$533.1 and \$62.5 million, respectively, from the General Fund. The fund received a transfer in of \$584.7 million from the State Gaming Fund, as compared to \$593.2 million in FY 2004. The fund received transfers in of \$59.0 million from the General Fund for a shortfall in tuition support, and \$29.3 million in sales taxes collected in the Tax Collection Fund.

The fund transferred out \$1,634 million to the General Fund for tuition support, as compared to \$1,596 million in FY 2004. \$113.9 million was transferred to the Build Indiana Fund, in contrast to FY 2004 when \$106.5 million was transferred. \$2.0 billion was distributed to local units of government for property tax relief, as compared to \$2.4 billion in FY 2004. The change in fund balance from FY 2004 to FY 2005 was essentially flat at a decline of \$4.3 million.

Tobacco Settlement Fund

The Tobacco Settlement Fund is used to receive and distribute revenue from the Tobacco Master Settlement Agreement entered into on November 23, 1998, by the State and leading United States tobacco product manufacturers. During fiscal year 2005, the State collected \$130.0 million from tobacco product manufacturers as compared to \$129.9 million in FY 2004. The fund collected \$11.5 million in income from investments during FY 2005.

The State expended \$15.0 million to fund operating and capital expenses associated with community health centers. \$13.0 million was spent for the prescription

drug program. \$8.4 million was spent for tobacco education, prevention, and use control. \$4.3 million was spent for technology and development, \$4.0 million for advertising, \$3.0 million for the Indiana Local Health Department Trust Account for distribution to the counties, \$2.3 million for rural development, and \$1.5 million for management consultants. Transfers out of the Fund were \$117.4 million as compared to \$108.7 million in FY 2004.

The change in fund balance from FY 2004 to FY 2005 was a decline of \$36.2 million, caused by spending down investments to support the programs of the fund. Investments declined from \$193.8 at the end of FY 2004 to \$144.2 at the end of FY 2005.

General Fund Budgetary Highlights

Actual revenue collections for FY05 were 2% higher than the original forecasted revenue expected at the time the budget was enacted by the Indiana General Assembly in April of 2003. This additional revenue plus nearly \$250 million of dedicated funding and the reversion of unspent capital dollars was used to close the books with nearly \$750 million in reserves. The reserves consist of \$24 million in Medicaid Reserves, \$291 million of Tuition Support Reserves, \$316 million in Rainy Day Funds, and \$119 million in General Fund working balance. However, a structural deficit of \$646 million existed for FY06 and debt of \$727 million is owed to schools, local units of government, and public

universities.

During FY05, the Indiana General Assembly enacted the 2006-2007 biennial budget. The budget passed by the General Assembly eliminated the structural deficit in the 2nd year of the biennium. Through administrative actions taken by Governor Daniels, the deficit will be closed in the first year as well. The annual rate of growth in appropriations is 2.2% (FY06 over FY05) and 1.4% (FY07 over FY06). This represents the smallest rate of growth in 50 years and compares to the average annual growth rate over the past ten years of 5.7%.

Capital Asset and Debt Administration

Capital Assets

Capital assets were \$10.85 billion, which was 51.1% of total assets for the primary government. Related debt was \$2.16 billion. Total capital assets net of related debt for the primary government was \$8.69 billion. Related debt was 19.9% of capital assets. Total capital assets increased by \$121.6 million or 1.1%. Construction in progress grew by \$114.4 million. The Indiana Department of Transportation (INDOT) accounted for \$45.0 million and the State Office

Building Commission accounted for \$53.7 million of this \$114.4 million. INDOT right of way land accounted for most of the \$41.4 million increase in land. These increases were partially offset by an increase of \$53.6 million in accumulated depreciation, caused by aging of the State's capital assets. More detailed information about the State's capital assets is presented in Note IV(D) to the Financial Statements.

The following table shows the percentage change from fiscal year 2004 to fiscal year 2005.

State of Indiana Capital Assets (in millions of dollars)							Total % Change
	Governmental Activities		Business-type Activities		Total Primary Government		
	2005	2004	2005	2004	2005	2004	
Land	\$ 1,195.4	\$ 1,154.0	\$ -	\$ -	\$ 1,195.4	\$ 1,154.0	3.6%
Infrastructure	7,530.6	7,517.4	-	-	7,530.6	7,517.4	0.2%
Construction in Progress	542.0	427.6	-	-	542.0	427.6	26.8%
Property, plant and equipment	2,622.1	2,616.2	23.0	22.7	2,645.1	2,638.9	0.2%
Less accumulated depreciation	(1,053.4)	(1,000.2)	(11.1)	(10.7)	(1,064.5)	(1,010.9)	5.3%
Total	\$ 10,836.7	\$ 10,715.0	\$ 11.9	\$ 12.0	\$ 10,848.6	\$ 10,727.0	1.1%

Long-term Obligations

Major long-term obligations items are included in the following table. These items comprised 100%

of total long-term liabilities and 50.0% of total liabilities.

The following table shows the percentage change from fiscal year 2004 to fiscal year 2005.

State of Indiana Long-term Liabilities (in millions of dollars)							Total % Change
Governmental Activities		Business-type Activities		Total Primary Government			
2005	2004	2005	2004	2005	2004		
Accrued liability for compensated absences	\$ 53.2	\$ 51.6	\$ 0.1	\$ 0.1	\$ 53.3	\$ 51.7	3.1%
Capital lease payable	20.3	22.0	-	-	20.3	22.0	-7.7%
Interest payable	12.3	15.2	-	-	12.3	15.2	-19.1%
Claims payable	-	-	38.5	32.9	38.5	32.9	17.0%
Construction retention	3.0	1.9	-	-	3.0	1.9	57.9%
Net pension obligations	7.3	3.6	-	-	7.3	3.6	102.8%
Due to component units	151.7	50.0	1,397.1	1,446.3	1,548.8	1,496.3	3.5%
Revenue bonds/notes payable	2,296.5	2,260.4	-	0.9	2,296.5	2,261.3	1.6%
Total	\$ 2,544.3	\$ 2,404.7	\$ 1,435.7	\$ 1,480.2	\$ 3,980.0	\$ 3,884.9	2.4%

Total long-term liabilities increased by 2.4% or \$95.1 million. Revenue bonds/notes payable increased by 1.6% or \$35.2 million. Most of the revenue bond increase is explained by the new bond issuances of the State Office Building Commission, which are given in detail in the Notes to the Financial Statements IV(F). Due to component units increased by 3.5% or \$52.5 million. This net increase is made up of two portions, increases in payment delays to universities and decreases due the State Revolving Fund.

Legislation provides that the State Budget Agency may delay one month of budgeted appropriations to the universities. Since this has been a continuous process from year to year, these payment delays have been reclassified from a current obligation to a long-term obligation. This increase is \$101.7 million.

The Indiana Bond Bank is a separate body corporate and politic from the State and is reported as a discretely presented component unit. The State Revolving Fund is administered by the State Budget Agency and the Indiana Department of Environmental Management, which are agencies of the State. Proceeds from State revolving bonds issued by the Indiana Bond Bank are used by the State Revolving Fund to assist qualified entities in obtaining below market financing for water pollution control projects. The long-term portion of these bonds issued for the benefit of the State Revolving Fund decreased by \$49.2 million from FY 2004 to FY 2005. The repayment of these loans is used by the State Revolving Fund to repay the Indiana Bond Bank, which makes the bond payments.

More detail about the State's debt is presented in Note IV(F) of the Notes to the Financial Statements.

Infrastructure

As required by GASB Statement No. 34, the State has capitalized its infrastructure. This amounts to \$7.5 billion in roads and bridges using the modified approach, \$979 million in right of way classified as land, and \$14 million in dams being depreciated. In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.

- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved approximately at or above the established condition level.

Under the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include approximately 23,000 lane miles of roads and approximately 5,100 bridges that the State is responsible to maintain.

The State has consistently maintained the assessed conditions of roads over the past three years. It is the State's policy to maintain Interstate and National Highway System (NHS) Non-Interstate roads at an average Pavement Quality Index (PQI) of 75 and Non-NHS roads at an average PQI of 65. The most recent condition assessment, completed for FY 2005, indicated that the average PQI for roads exceeded the minimum acceptable standard.

The State has maintained the assessed conditions of

bridges at levels which are above the established benchmarks. It is the State's policy to maintain Interstate bridges at an average sufficiency rating of 87%, NHS Non-Interstate bridges at an average sufficiency rating of 85%, and Non-NHS bridges at an average sufficiency rating of 83%. The most recent condition assessment, completed in FY 2005, indicated that the average sufficiency rating for bridges exceeded the minimum acceptable standard.

Although the actual maintenance and preservation costs for Interstate and NHS Non-Interstate roads and Interstate and NHS Non-Interstate bridges were lower than planned, this has not caused the condition level to fall below the State's policy. In total, maintenance cost for all roads exceeded plan, as did total maintenance cost for all bridges.

Economic Factors

The economic forecast upon which the State budget for FY05 was based was updated in April 2005. The April 2005 updated forecast projected real Gross Domestic Product (GDP) to increase by 3.8% in FY05. The U.S. Bureau of Economic Analysis currently estimates that real GDP increased by 3.7% during FY05. The April 2005 forecast for real GDP growth is 3.5% in FY06 and 3.2% in FY07.

The April 2005 forecast projected that Indiana non-farm personal income would increase by 5.1% in FY05. The U.S. Bureau of Economic Analysis currently estimates that Indiana non-farm personal income increased by 4.8% in FY05. The April 2005 forecast for Indiana non-farm personal income growth is 5.2% in FY06 and 5.2% in FY07.

Contacting the Auditor of State

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it

receives. If you have questions about this report or need additional financial information, contact the Auditor of State, 240 State House, 200 West Washington Street, Indianapolis, Indiana 46204-2793.

BASIC FINANCIAL STATEMENTS



GOVERNMENT-WIDE FINANCIAL STATEMENTS



State of Indiana
Statement of Net Assets
June 30, 2005
(amounts expressed in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets:				
Current assets:				
Cash, cash equivalents and investments	\$ 3,168,339	\$ 1,040,579	\$ 4,208,918	\$ 1,629,266
Securities lending collateral	1,408,038	-	1,408,038	710,875
Receivables (net)	1,562,368	61,344	1,623,712	395,339
Inventory	5,954	566	6,520	36,495
Prepaid expenses	2,189	32	2,221	18,111
Loans	80,260	41,274	121,534	7,232
Intergovernmental loans	-	-	-	755,806
Due from primary government	-	-	-	46,695
Due from component unit	27,068	-	27,068	-
Investment in direct financing lease	-	-	-	560
Funds held in trust by others	-	-	-	63,385
Other current assets	-	-	-	33,473
Total current assets	6,254,216	1,143,795	7,398,011	3,697,237
Noncurrent assets:				
Cash, cash equivalents and investments - restricted	188,231	528,354	716,585	2,022,146
Taxes, interest, and penalties receivable	520,941	-	520,941	5,500
Other receivables	91,617	-	91,617	1,469,532
Investments - unrestricted	-	-	-	2,877,143
Loans	392,853	996,279	1,389,132	225
Bond issuance costs net of amortization	8,809	-	8,809	42,734
Intergovernmental loans	-	-	-	1,467,548
Due from primary government	-	-	-	1,548,843
Investment in direct financing lease	-	-	-	241,907
Net pension assets	226,805	-	226,805	-
Other noncurrent assets	15	11,197	11,212	74,926
Capital assets:				
Land	1,195,389	-	1,195,389	266,405
Infrastructure	7,530,607	-	7,530,607	423,445
Construction in progress	541,907	-	541,907	409,163
Property, plant, and equipment	2,622,133	23,020	2,645,153	6,566,124
Less accumulated depreciation	(1,053,362)	(11,127)	(1,064,489)	(2,969,432)
Total capital assets, net of depreciation	10,836,674	11,893	10,848,567	4,695,705
Total noncurrent assets	12,265,945	1,547,723	13,813,668	14,446,209
Total assets	18,520,161	2,691,518	21,211,679	18,143,446
Liabilities:				
Current liabilities:				
Accounts payable	296,730	5,360	302,090	272,143
Claims payable	-	2,091	2,091	-
Interest payable	30,078	29,126	59,204	79,570
Current portion of long-term debt	57,637	-	57,637	1,013,818
Line of credit	-	-	-	78,975
Intergovernmental payable	1,756,089	-	1,756,089	-
Due to primary government	-	-	-	27,068
Due to component unit	-	46,695	46,695	-
Capital lease payable	2,486	-	2,486	1,810
Accrued prize liability	-	-	-	55,459
Salaries, health, disability, and benefits payable	98,003	384	98,387	30,200
Tax refunds payable	50,278	-	50,278	-
Deferred revenue	101,824	7,347	109,171	238,822
Accrued liability for compensated absences	77,178	185	77,363	58,981
Securities lending payable	4,234	-	4,234	16
Securities lending collateral	1,408,038	-	1,408,038	710,875
Deposits held in custody for others	-	-	-	31,968
Other current liabilities	1,478	464	1,942	31,656
Total current liabilities	3,884,053	91,652	3,975,705	2,631,361

State of Indiana
Statement of Net Assets
June 30, 2005
(amounts expressed in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Long-term liabilities:				
Accrued liability for compensated absences	\$ 53,214	\$ 140	\$ 53,354	\$ 36,763
Claims payable	-	38,417	38,417	-
Interest payable	12,308	-	12,308	-
Construction retention	2,962	-	2,962	-
Accrued prize liability	-	-	-	68,231
Net pension obligations	7,310	-	7,310	-
Due to component unit	151,702	1,397,141	1,548,843	-
Capital lease payable	20,306	-	20,306	31,178
Funds held in trust for others	-	-	-	106,899
Advances from federal government	295	-	295	20,721
Revenue bonds/notes payable	2,296,245	-	2,296,245	6,376,001
Other noncurrent liabilities	-	-	-	109,328
Total long-term liabilities	2,544,342	1,435,698	3,980,040	6,749,121
Total liabilities	6,428,395	1,527,350	7,955,745	9,380,482
Net Assets:				
Invested in capital assets net of related debt	8,678,840	11,893	8,690,733	2,783,775
Restricted-nonexpendable:				
Grants/constitutional restrictions	524,256	-	524,256	-
Permanent funds	4,719	-	4,719	-
Instruction and research	-	-	-	125,085
Student aid	-	-	-	103,504
Other purposes	-	-	-	94,605
Total restricted-nonexpendable	528,975	-	528,975	323,194
Restricted-expendable:				
Instruction and research	-	-	-	131,134
Grants/constitutional restrictions	-	-	-	3,851
Future debt service	89,425	-	89,425	185,168
Pension fund distribution	-	-	-	5,211
Public safety programs	5,671	-	5,671	-
Transportation programs	-	-	-	9,414
Student aid	-	-	-	102,954
Auxiliary enterprises	-	-	-	3,384
Capital projects	-	-	-	226,701
Unemployment compensation	-	452,708	452,708	-
Other purposes	-	-	-	1,340,061
Total restricted-expendable	95,096	452,708	547,804	2,007,878
Unrestricted	2,788,855	699,567	3,488,422	3,648,117
Total net assets	\$ 12,091,766	\$ 1,164,168	\$ 13,255,934	\$ 8,762,964

The notes to the financial statements are an integral part of this statement.

State of Indiana
Statement of Activities
For the Year Ended June 30, 2005
(amounts expressed in thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 3,951,222	\$ 444,845	\$ 219,907	\$ -	\$ (3,286,470)	\$ -	\$ (3,286,470)	\$ -
Public safety	1,226,752	603,470	112,364	15,470	(495,448)	-	(495,448)	-
Health	426,565	32,963	277,006	85	(116,511)	-	(116,511)	-
Welfare	7,312,867	116,832	4,988,914	-	(2,207,121)	-	(2,207,121)	-
Conservation, culture and development	516,107	102,410	230,376	-	(183,321)	-	(183,321)	-
Education	6,599,329	1,637	748,944	-	(5,848,748)	-	(5,848,748)	-
Transportation	1,589,231	3,973	811,241	32	(773,985)	-	(773,985)	-
Unallocated interest expense	121,223	-	-	-	(121,223)	-	(121,223)	-
Other	(270)	-	-	-	270	-	270	-
Total governmental activities	21,743,026	1,306,130	7,388,752	15,587	(13,032,557)	-	(13,032,557)	-
Business-type activities								
State Revolving Fund	72,405	76,244	-	34,714	-	38,553	38,553	-
Unemployment Compensation Fund	713,120	599,437	-	-	-	(113,683)	(113,683)	-
Other	31,827	31,367	-	-	-	(460)	(460)	-
Total business-type activities	817,352	707,048	-	34,714	-	(75,590)	(75,590)	-
Total primary government	\$ 22,560,378	\$ 2,013,178	\$ 7,388,752	\$ 50,301	(13,032,557)	(75,590)	(13,108,147)	-
Component units:								
Governmental and proprietary	1,245,668	907,757	339,522	64	-	-	-	1,675
Colleges and universities	4,707,852	2,197,099	1,228,805	85,713	-	-	-	(1,196,235)
Total component units	\$ 5,953,520	\$ 3,104,856	\$ 1,568,327	\$ 85,777	-	-	-	(1,194,560)
General Revenues:								
Income tax					5,127,828	-	5,127,828	-
Sales tax					4,963,327	-	4,963,327	-
Fuels tax					831,010	-	831,010	-
Gaming tax					791,228	-	791,228	-
Inheritance tax					166,825	-	166,825	-
Alcohol & Tobacco tax					359,066	-	359,066	-
Insurance tax					190,253	-	190,253	-
Financial Institutions tax					70,067	-	70,067	-
Other tax					204,328	-	204,328	-
Total taxes					12,703,932	-	12,703,932	-
Revenue not restricted to specific programs								
Investment earnings					81,612	32,907	114,519	314,253
Payments from State of Indiana					-	-	-	1,336,479
Other					35,759	720	36,479	86,824
Transfers within primary government					(958)	958	-	-
Total general revenues and transfers					12,820,345	34,585	12,854,930	1,737,556
Changes in net assets					(212,212)	(41,005)	(253,217)	542,996
Net assets - beginning, as restated					12,303,978	1,205,173	13,509,151	8,219,968
Net assets - ending					\$ 12,091,766	\$ 1,164,168	\$ 13,255,934	\$ 8,762,964

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

State of Indiana
Balance Sheet
Governmental Funds
June 30, 2005
(amounts expressed in thousands)

	<u>General Fund</u>	<u>Motor Vehicle Highway Fund</u>	<u>Medicaid Assistance Fund</u>	<u>Build Indiana Fund</u>
Assets:				
Cash, cash equivalents and investments-unrestricted	\$ 926,124	\$ 5,514	\$ -	\$ 21,958
Securities lending collateral	1,062,851	-	-	-
Receivables:				
Taxes (net of allowance for uncollectible accounts)	1,322,280	18,711	-	-
Securities lending	3,083	-	-	-
Accounts	8,748	-	-	-
Grants	4,232	194	50,492	-
Interest	3,714	-	-	-
Interfund loans	50,188	-	-	-
Due from component unit	-	-	-	27,068
Prepaid expenditures	287	1,805	-	-
Loans	24,659	-	-	2,905
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 3,406,166</u>	<u>\$ 26,224</u>	<u>\$ 50,492</u>	<u>\$ 51,931</u>
Liabilities:				
Accounts payable	\$ 56,590	\$ 546	\$ 49	\$ 95
Salaries and benefits payable	34,856	4,754	-	-
Interfund loans	-	-	37,095	-
Interfund services used	1,862	823	-	-
Intergovernmental payable	333,921	30,728	-	-
Tax refunds payable	47,406	4	-	-
Deferred revenue	623,668	7,141	-	-
Accrued liability for compensated absences-current	2,684	62	-	-
Securities lending payable	3,083	-	-	-
Securities lending collateral	1,062,851	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>2,166,921</u>	<u>44,058</u>	<u>37,144</u>	<u>95</u>
Fund balance:				
Reserved:				
Encumbrances	34,164	7,398	-	954
Special purposes	4,232	194	50,492	-
Tuition support	290,500	-	-	-
Interfund loans	50,188	-	-	-
Long-term loans and advances	23,667	-	-	2,898
Unreserved fund balance reported in:				
General fund	836,494	-	-	-
Special revenue funds	-	(25,426)	(37,144)	47,984
Capital projects funds	-	-	-	-
Permanent funds	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total fund balance	<u>1,239,245</u>	<u>(17,834)</u>	<u>13,348</u>	<u>51,836</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balance	<u>\$ 3,406,166</u>	<u>\$ 26,224</u>	<u>\$ 50,492</u>	<u>\$ 51,931</u>

The notes to the financial statements are an integral part of this statement.

State Highway Department Fund	Property Tax Replacement Fund	Tobacco Settlement Fund	Non-major Governmental Funds	Total
\$ 317,545	\$ -	\$ 216,848	\$ 1,419,394	\$ 2,907,383
4,017	-	16,372	324,798	1,408,038
-	302,498	-	154,049	1,797,538
10	-	56	1,085	4,234
1,075	-	-	20,133	29,956
-	-	-	68,721	123,639
3	-	11	859	4,587
9,265	-	-	436	59,889
-	-	-	-	27,068
-	-	-	25	2,117
8,215	-	-	437,335	473,114
\$ 340,130	\$ 302,498	\$ 233,287	\$ 2,426,835	\$ 6,837,563
\$ 14,335	\$ -	\$ 1,991	\$ 146,784	\$ 220,390
8,477	-	45	23,027	71,159
-	-	-	8,227	45,322
148	-	1	2,379	5,213
-	1,308,406	-	83,034	1,756,089
-	-	-	2,868	50,278
43,948	85,126	-	81,070	840,953
726	-	-	1,934	5,406
10	-	56	1,085	4,234
4,017	-	16,372	324,798	1,408,038
71,661	1,393,532	18,465	675,206	4,407,082
834,766	-	4,135	187,795	1,069,212
-	-	-	69,263	124,181
-	-	-	-	290,500
9,265	-	-	436	59,889
8,215	-	-	432,962	467,742
-	-	-	-	836,494
(583,777)	(1,091,034)	210,687	855,884	(622,826)
-	-	-	81,284	81,284
-	-	-	124,005	124,005
268,469	(1,091,034)	214,822	1,751,629	2,430,481
\$ 340,130	\$ 302,498	\$ 233,287	\$ 2,426,835	\$ 6,837,563

State of Indiana
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2005
(amounts expressed in thousands)

Total fund balances-governmental funds \$ 2,430,481

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Land	\$ 1,138,082	
Infrastructure assets	7,530,607	
Construction in progress	436,391	
Property, plant, and equipment	1,624,920	
Accumulated depreciation	<u>(817,797)</u>	
Total capital assets		9,912,203

The State's pension funds have net pension assets not reported as assets in the funds. 226,805

Recreational Development Commission startup is a noncurrent asset not reported in the funds 500

Some of the state's revenues will be collected after year-end but are not available soon enough to pay for the current period's expenditures and therefore are deferred in the funds. 922,591

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds. (168,509)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 205,528

Revenue bonds in internal service funds which are offset by a direct financing lease are eliminated. The revenue bonds eliminated are included in the statement of net assets. (1,245,552)

Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:

Accrued liability for compensated absences	(122,874)	
Loan from the Indiana Board for Depositories	(50,000)	
Capital lease payable	(12,097)	
Net pension obligations	<u>(7,310)</u>	
Total long-term liabilities		<u>(192,281)</u>

Net assets of governmental activities \$ 12,091,766

The notes to the financial statements are an integral part of this statement.



State of Indiana
Statement of Revenues, Expenditures,
and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005
(amounts expressed in thousands)

	General Fund	Motor Vehicle Highway Fund	Medicaid Assistance Fund	Build Indiana Fund
Revenues:				
Taxes:				
Income	\$ 4,942,205	\$ -	\$ -	\$ -
Sales	2,386,526	-	-	-
Fuels	-	482,135	-	-
Gaming	84,519	-	-	-
Inheritance	166,825	-	-	-
Alcohol and tobacco	300,777	-	-	-
Insurance	187,671	-	-	-
Financial Institutions	-	-	-	-
Other	155,386	-	-	-
Total taxes	<u>8,223,909</u>	<u>482,135</u>	<u>-</u>	<u>-</u>
Current service charges	170,956	16,607	-	156,808
Investment income	63,344	-	-	-
Sales/rents	1,250	319	-	-
Grants	9,124	19,474	3,044,336	-
Other	34,726	61,241	3,087	142
	<u>8,503,309</u>	<u>579,776</u>	<u>3,047,423</u>	<u>156,950</u>
Total revenues				
Expenditures:				
Current:				
General government	1,128,976	289,004	-	11,305
Public safety	622,966	180,816	-	-
Health	99,624	-	-	-
Welfare	366,067	-	4,611,366	-
Conservation, culture and development	80,183	-	-	1,091
Education	5,555,431	259	-	-
Transportation	1,936	4,553	-	58
	<u>7,855,183</u>	<u>474,632</u>	<u>4,611,366</u>	<u>12,454</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	<u>648,126</u>	<u>105,144</u>	<u>(1,563,943)</u>	<u>144,496</u>
Other financing sources (uses):				
Transfers in	2,548,487	267,352	1,654,000	120,463
Transfers (out)	(3,100,077)	(363,861)	(83,342)	(236,287)
	<u>(551,590)</u>	<u>(96,509)</u>	<u>1,570,658</u>	<u>(115,824)</u>
Total other financing sources (uses)				
Net change in fund balances	<u>96,536</u>	<u>8,635</u>	<u>6,715</u>	<u>28,672</u>
Fund Balance July 1, as restated	<u>1,142,709</u>	<u>(26,469)</u>	<u>6,633</u>	<u>23,164</u>
Fund Balance June 30	<u>\$ 1,239,245</u>	<u>\$ (17,834)</u>	<u>\$ 13,348</u>	<u>\$ 51,836</u>

The notes to the financial statements are an integral part of this statement.

State Highway Department Fund	Property Tax Replacement Fund	Tobacco Settlement Fund	Non-Major Governmental Funds	Total
\$ -	\$ -	\$ -	\$ 170,255	\$ 5,112,460
-	2,451,619	-	105,530	4,943,675
2	-	-	345,818	827,955
-	-	-	706,713	791,232
-	-	-	-	166,825
-	-	-	58,132	358,909
-	-	-	2,582	190,253
-	-	-	84,968	84,968
-	-	-	140,128	295,514
<u>2</u>	<u>2,451,619</u>	<u>-</u>	<u>1,614,126</u>	<u>12,771,791</u>
13,504	-	130,001	799,920	1,287,796
150	-	11,506	18,043	93,043
2,192	-	-	21,285	25,046
675,309	-	415	3,219,994	6,968,652
70,234	-	146	266,830	436,406
<u>761,391</u>	<u>2,451,619</u>	<u>142,068</u>	<u>5,940,198</u>	<u>21,582,734</u>
68	1,996,807	24,170	597,336	4,047,666
-	-	-	413,370	1,217,152
-	-	36,638	289,959	426,221
-	-	76	2,330,017	7,307,526
-	-	65	434,766	516,105
-	-	-	950,234	6,505,924
1,337,134	-	-	212,235	1,555,916
<u>1,337,202</u>	<u>1,996,807</u>	<u>60,949</u>	<u>5,227,917</u>	<u>21,576,510</u>
<u>(575,811)</u>	<u>454,812</u>	<u>81,119</u>	<u>712,281</u>	<u>6,224</u>
490,323	1,306,222	77	1,596,525	7,983,449
(4,477)	(1,765,310)	(117,441)	(2,311,087)	(7,981,882)
<u>485,846</u>	<u>(459,088)</u>	<u>(117,364)</u>	<u>(714,562)</u>	<u>1,567</u>
(89,965)	(4,276)	(36,245)	(2,281)	7,791
358,434	(1,086,758)	251,067	1,753,910	2,422,690
<u>\$ 268,469</u>	<u>\$ (1,091,034)</u>	<u>\$ 214,822</u>	<u>\$ 1,751,629</u>	<u>\$ 2,430,481</u>

State of Indiana
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2005
(amounts expressed in thousands)

Net change in fund balances-total governmental funds	\$	7,791
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report net capital outlays for infrastructure as expenditures. However in the statement of activities these outlays are capitalized and under the modified approach not depreciated. This is the amount of the net capital outlays for infrastructure under the modified approach in the current period.		93,688
Governmental funds report net capital outlays as expenditures. However in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$50,634) exceeds net capital outlays (\$29,754) in the current period.		(20,880)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(58,800)
Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the funds.		(208,079)
Payment delays to colleges and universities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.		(101,702)
The change in net pension assets and net pension obligations do not provide or require the use of current financial resources:		
Decrease in net pension assets		(4,583)
Decrease in net pension obligations		64,204
Internal service funds are used by management to charge the costs of certain activities, such as insurance, data processing, telecommunications, fleet management, and printing, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.		16,149
Change in net assets of governmental activities.	\$	<u>(212,212)</u>

The notes to the financial statements are an integral part of this statement.



State of Indiana
Statement of Fund Net Assets
Proprietary Funds
June 30, 2005

(amounts expressed in thousands)

	Enterprise Funds				
	State Revolving Fund	Unemployment Compensation Fund	Other Enterprise Funds	Total	Internal Service Funds
Assets					
Current assets:					
Cash, cash equivalents and investments - unrestricted	\$ 571,622	\$ 425,263	\$ 43,694	\$ 1,040,579	\$ 260,957
Receivables:					
Accounts	-	-	410	410	32,758
Taxes	-	31,951	-	31,951	-
Interest	28,267	-	563	28,830	409
Grants	-	153	-	153	-
Interfund services provided	-	-	-	-	5,213
Loans	41,274	-	-	41,274	-
Inventory	-	-	566	566	5,954
Prepaid expenses	-	-	32	32	72
Total current assets	641,163	457,367	45,265	1,143,795	305,363
Noncurrent assets:					
Cash, cash equivalents and investments - restricted	528,354	-	-	528,354	188,231
Interest receivable - restricted	-	-	-	-	460
Loans	996,279	-	-	996,279	-
Bond issuance costs - net of amortization	-	-	-	-	8,809
Capital assets:					
Land	-	-	-	-	57,307
Construction in progress	-	-	-	-	105,516
Property, plant, and equipment	-	-	23,020	23,020	997,213
Less accumulated depreciation	-	-	(11,127)	(11,127)	(235,565)
Total capital assets, net of depreciation	-	-	11,893	11,893	924,471
Other assets	11,197	-	-	11,197	15
Total noncurrent assets	1,535,830	-	11,893	1,547,723	1,121,986
Total assets	2,176,993	457,367	57,158	2,691,518	1,427,349
Liabilities					
Current liabilities:					
Accounts payable	197	4,659	504	5,360	10,192
Claims payable	-	-	2,091	2,091	-
Interfund loans	-	-	-	-	14,567
Salaries and benefits payable	-	-	384	384	689
Interest payable	29,126	-	-	29,126	30,078
Capital lease payable	-	-	-	-	712
Current portion of long-term debt	-	-	-	-	34,357
Health/disability benefits payable	-	-	-	-	25,497
Accrued liability for compensated absences	-	-	185	185	1,213
Due to component unit	46,695	-	-	46,695	-
Deferred revenue	-	-	7,347	7,347	2,118
Other liabilities	-	-	464	464	1,478
Total current liabilities	76,018	4,659	10,975	91,652	120,901
Noncurrent liabilities:					
Construction retention	-	-	-	-	2,962
Accrued liability for compensated absences	-	-	140	140	899
Capital lease payable	-	-	-	-	9,983
Claim payable	-	-	38,417	38,417	-
Interest payable	-	-	-	-	12,308
Due to component unit	1,397,141	-	-	1,397,141	-
Interfund loans	-	-	-	-	500
Amount due federal government	-	-	-	-	295
Revenue bonds/notes payable	-	-	-	-	1,073,973
Total noncurrent liabilities	1,397,141	-	38,557	1,435,698	1,100,920
Total liabilities	1,473,159	4,659	49,532	1,527,350	1,221,821
Net assets					
Invested in capital assets net of related debt	-	-	11,893	11,893	12,188
Restricted-expendable:					
Future debt service	-	-	-	-	89,425
Unemployment compensation	-	452,708	-	452,708	-
Unrestricted	703,834	-	(4,267)	699,567	103,915
Total net assets	\$ 703,834	\$ 452,708	\$ 7,626	\$ 1,164,168	\$ 205,528

The notes to the financial statements are an integral part of this statement.

State of Indiana
Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

(amounts expressed in thousands)

	Enterprise Funds				
	State Revolving Fund	Unemployment Compensation Fund	Other Enterprise Funds	Total	Internal Service Funds
Operating revenues:					
Sales/rents/premiums	\$ -	\$ -	\$ 31,234	\$ 31,234	\$ 519,798
Interest income	76,244	-	-	76,244	-
Employer contributions	-	573,075	-	573,075	-
Charges for services	-	-	-	-	1,462
Other	720	-	133	853	233
Total operating revenues	76,964	573,075	31,367	681,406	521,493
Cost of sales	-	-	3,260	3,260	34,061
Gross margin	76,964	573,075	28,107	678,146	487,432
Operating expenses:					
General and administrative expense	3,672	-	18,338	22,010	76,088
Interest expense	67,536	-	-	67,536	-
Claims expense	-	-	9,510	9,510	-
Health / disability benefit payments	-	-	-	-	245,467
Unemployment compensation benefits	-	713,120	-	713,120	-
Depreciation and amortization	1,197	-	584	1,781	28,925
Other	-	-	135	135	-
Total operating expenses	72,405	713,120	28,567	814,092	350,480
Operating income (loss)	4,559	(140,045)	(460)	(135,946)	136,952
Nonoperating revenues (expenses):					
Interest and other investment income	-	32,286	621	32,907	7,814
Interest and other investment expense	-	-	-	-	(121,223)
Capital outlay reimbursement	-	-	-	-	(4,394)
Gain (Loss) on disposition of assets	-	-	-	-	(684)
Other	-	26,362	-	26,362	-
Total nonoperating revenues (expenses)	-	58,648	621	59,269	(118,487)
Income before contributions and transfers	4,559	(81,397)	161	(76,677)	18,465
Capital contributions	34,714	-	-	34,714	209
Transfers in	-	-	958	958	8,373
Transfers (out)	-	-	-	-	(10,898)
Change in net assets	39,273	(81,397)	1,119	(41,005)	16,149
Total net assets, July 1, as restated	664,561	534,105	6,507	1,205,173	189,379
Total net assets, June 30	\$ 703,834	\$ 452,708	\$ 7,626	\$ 1,164,168	\$ 205,528

The notes to the financial statements are an integral part of this statement.

State of Indiana
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

(amounts expressed in thousands)

	Enterprise Funds				
	State Revolving Fund	Unemployment Compensation Fund	Other Enterprise Funds	Total	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	\$ -	\$ 570,357	\$ 30,898	\$ 601,255	\$ 521,817
Cash received from federal government	-	-	-	-	5
Cash paid for general and administrative	(3,623)	-	(18,486)	(22,109)	(77,146)
Cash paid for salary/health/disability benefit payments	-	-	-	-	(247,898)
Cash paid for swap option agreement	-	-	-	-	(12,250)
Cash paid to suppliers	-	-	(3,276)	(3,276)	(34,562)
Cash paid for claims expense	-	(720,944)	(3,798)	(724,742)	-
Other operating income	719	-	-	719	-
Net cash provided (used) by operating activities	(2,904)	(150,587)	5,338	(148,153)	149,966
Cash flows from noncapital financing activities:					
Transfers in	-	-	-	-	8,373
Transfers out	-	-	-	-	(10,898)
Principal payments to reduce indebtedness	(39,365)	-	-	(39,365)	-
Payment of debt issue costs	(825)	-	-	(825)	-
Increase in amount due to federal government	(847)	-	-	(847)	-
Interest paid on bonds and note payable	(64,574)	-	-	(64,574)	-
Other	-	26,332	-	26,332	-
Net cash provided (used) by noncapital financing activities	(105,611)	26,332	-	(79,279)	(2,525)
Cash flows from capital and related financing activities:					
Acquisition/construction of capital assets	-	-	(402)	(402)	(309,297)
Proceeds from sale of assets	-	-	-	-	327,315
Proceeds from issuance of notes payable/bonds payable	-	-	-	-	147,426
Principal payments -- capital leases	-	-	-	-	(995)
Principal payments -- bonds/notes	-	-	-	-	(393,238)
Repayment of interfund payable	-	-	-	-	(12,060)
Interfund loan	-	-	-	-	8,076
Capital contributions	75,418	-	958	76,376	-
Payment to refunded bond escrow agent	-	-	-	-	(7,623)
Interest paid	-	-	-	-	(115,201)
Debt issue expense	-	-	-	-	(1,460)
Net cash provided (used) by capital and related financing activities	75,418	-	556	75,974	(357,057)
Cash flows from investing activities:					
Proceeds from sales of investments	60,005	-	4,577	64,582	218,815
Purchase of investments	(192,365)	-	(13,367)	(205,732)	(252,876)
Interest income (expense) on investments	76,244	32,286	1,353	109,883	5,203
Net cash provided (used) by investing activities	(56,116)	32,286	(7,437)	(31,267)	(28,858)
Net increase (decrease) in cash and cash equivalents	(89,213)	(91,969)	(1,543)	(182,725)	(238,474)
Cash and cash equivalents, July 1, as restated	660,835	517,232	4,816	1,182,883	499,221
Cash and cash equivalents, June 30	\$ 571,622	\$ 425,263	\$ 3,273	\$ 1,000,158	\$ 260,747
Reconciliation of cash, cash equivalents and investments:					
Cash and cash equivalents unrestricted at end of year	\$ 571,622	\$ 425,263	\$ 3,273	\$ 1,000,158	\$ 260,657
Cash and cash equivalents restricted at end of year	-	-	-	-	90
Investments unrestricted	-	-	40,421	40,421	300
Investments restricted	528,354	-	-	528,354	188,141
Cash, cash equivalents and investments per balance sheet	\$ 1,099,976	\$ 425,263	\$ 43,694	\$ 1,568,933	\$ 449,188
Noncash investing, capital and financing activities:					
Increase in fair value of investments	\$ -	\$ -	\$ 928	\$ 928	\$ -

State of Indiana
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended
June 30, 2005

(amounts expressed in thousands)

	Enterprise Funds				Internal Service Funds
	State Revolving Fund	Unemployment Compensation Fund	Other Enterprise Funds	Total	
Reconciliation of operating income to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 4,559	\$ (140,045)	\$ (460)	\$ (135,946)	\$ 136,952
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation/amortization expense	1,196	-	584	1,780	28,925
(Increase) decrease in receivables	(8,709)	(2,718)	(12)	(11,439)	(13,003)
(Increase) decrease in interfund services provided	-	-	-	-	1,817
(Increase) decrease in inventory	-	-	(16)	(16)	648
(Increase) decrease in prepaid expenses	-	-	6	6	2,148
(Increase) decrease in claims payable	-	-	5,712	5,712	-
Increase (decrease) in benefits payable	-	-	-	-	(2,429)
Increase (decrease) in accounts payable	50	(7,824)	(11)	(7,785)	(4,262)
Increase (decrease) in deferred revenue	-	-	(458)	(458)	(738)
Increase (decrease) in salaries payable	-	-	40	40	(50)
Increase (decrease) in compensated absences	-	-	25	25	(42)
Increase (decrease) in other payables	-	-	(72)	(72)	-
Net cash provided (used) by operating activities	<u>\$ (2,904)</u>	<u>\$ (150,587)</u>	<u>\$ 5,338</u>	<u>\$ (148,153)</u>	<u>\$ 149,966</u>

The notes to the financial statements are an integral part of this statement.

State of Indiana
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2005
(amounts expressed in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Private-Purpose Trust Funds	Agency Funds
Assets:			
Cash, cash equivalents and non-pension investments	\$ 1,509,634	\$ 51,164	\$ 564,173
Securities lending collateral	3,211,320	5,173	75,750
Receivables:			
Taxes	-	-	6,805
Contributions	167,458	-	-
Interest	31,991	33	-
Securities lending	-	21	195
Member loans	8,121	-	-
Due from other funds	10,059	-	-
Due from component unit	495	-	-
From investment sales	1,218,266	-	-
Other	-	-	60
Pension and other employee benefit investments at fair value:			
US treasury and agency obligations	2,641,314	-	-
State and municipal obligations	867	-	-
Domestic corporate bonds and notes	1,740,790	-	-
Common stock and equity securities	11,860,147	-	-
Foreign bonds	141,937	-	-
Mortgage securities	2,244,862	-	-
Mutual funds	1,556,237	-	-
Asset backed	317,120	-	-
Commercial mortgage backed	151,571	-	-
Venture capital and partnerships	70,045	-	-
Real estate	260	-	-
Other	43,199	-	-
Total investments	<u>20,768,349</u>	<u>-</u>	<u>-</u>
Other assets	-	-	119,972
Property, plant and equipment net of accumulated depreciation	<u>3,226</u>	<u>-</u>	<u>-</u>
Total assets	<u>26,928,919</u>	<u>56,391</u>	<u>766,955</u>
Liabilities:			
Accounts/escrows payable	13,656	4,295	645,629
Securities purchased payable	2,094,401	-	-
Salaries and benefits payable	519	-	-
Due to other funds	10,059	-	-
Securities lending payable	-	21	195
Due to component unit	495	-	-
Compensated absences	542	-	-
Securities lending collateral	3,211,320	5,173	75,750
Other	145	-	45,381
Total liabilities	<u>5,331,137</u>	<u>9,489</u>	<u>\$ 766,955</u>
Net assets:			
Held in trust for:			
Employees' post-employment benefits	21,597,782	-	-
Trust beneficiaries	<u>-</u>	<u>46,902</u>	-
Total net assets	<u>\$ 21,597,782</u>	<u>\$ 46,902</u>	-

The notes to the financial statements are an integral part of this statement.

State of Indiana
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2005

(amounts expressed in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Private-Purpose Trust Funds
Additions:		
Member contributions	\$ 350,170	\$ 62,475
Employer contributions	836,285	-
Contributions from the State of Indiana	61,853	-
Net investment income (loss)	1,871,543	560
Less investment expense	(115,385)	-
Donations/escheats	-	57,670
Transfers in	6,954	-
Other	1,607	-
Total additions	3,013,027	120,705
Deductions:		
Pension benefits	1,169,833	-
Disability and other benefits	10,097	-
Payments to participants/beneficiaries	-	119,183
Refunds of contributions and interest	73,335	-
General government	-	222
Administrative	24,490	-
Pension relief distributions	115,228	-
Capital projects	594	-
Depreciation	24	-
Transfers out	6,954	-
Other	4,183	-
Total deductions	1,404,738	119,405
Net increase (decrease) in net assets	1,608,289	1,300
Net assets held in trust, July 1, as restated	19,989,493	45,602
Net assets held in trust, June 30	\$ 21,597,782	\$ 46,902

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Net Assets
Discretely Presented Component Units
June 30, 2005
(amounts expressed in thousands)

	Governmental and Proprietary	Colleges and Universities	Total
Assets:			
Current assets:			
Cash, cash equivalents and investments	\$ 628,413	\$ 1,000,853	\$ 1,629,266
Securities lending collateral	214,772	496,103	710,875
Receivables (net)	111,414	283,925	395,339
Inventory	1,708	34,787	36,495
Prepaid expenses	3,274	14,837	18,111
Loans	7,232	-	7,232
Intergovernmental loans	755,806	-	755,806
Due from primary government	46,695	-	46,695
Investment in direct financing lease	560	-	560
Funds held in trust by others	-	63,385	63,385
Other current assets	3,517	29,956	33,473
Total current assets	1,773,391	1,923,846	3,697,237
Noncurrent assets:			
Cash, cash equivalents and investments - restricted	579,089	1,443,057	2,022,146
Taxes, interest, and penalties receivable	5,500	-	5,500
Other receivables	1,246,252	223,280	1,469,532
Investments - unrestricted	74,190	2,802,953	2,877,143
Loans	-	225	225
Bond issuance costs net of amortization	42,614	120	42,734
Intergovernmental loans	1,467,548	-	1,467,548
Due from primary government	1,447,141	101,702	1,548,843
Investment in direct financing lease	210,699	31,208	241,907
Other noncurrent assets	3,557	71,369	74,926
Capital assets:			
Land	107,429	158,976	266,405
Infrastructure	184,562	238,883	423,445
Construction in progress	34,276	374,887	409,163
Property, plant, and equipment	155,604	6,410,520	6,566,124
Less accumulated depreciation	(86,223)	(2,883,209)	(2,969,432)
Capital assets, net of accumulated depreciation	395,648	4,300,057	4,695,705
Total noncurrent assets	5,472,238	8,973,971	14,446,209
Total assets	7,245,629	10,897,817	18,143,446
Liabilities:			
Current liabilities:			
Accounts payable	35,162	236,981	272,143
Interest payable	77,828	1,742	79,570
Current portion of long-term debt	919,638	94,180	1,013,818
Line of credit	78,975	-	78,975
Due to primary government	27,068	-	27,068
Capital lease payable	-	1,810	1,810
Accrued prize liability	55,459	-	55,459
Salaries, health, disability, and benefits payable	2,425	27,775	30,200
Deferred revenue	647	238,175	238,822
Accrued liability for compensated absences	-	58,981	58,981
Securities lending payable	16	-	16
Securities lending collateral	214,772	496,103	710,875
Deposits held in custody for others	1,452	30,516	31,968
Other current liabilities	1,956	29,700	31,656
Total current liabilities	1,415,398	1,215,963	2,631,361
Long-term liabilities:			
Accrued liability for compensated absences	-	36,763	36,763
Accrued prize liability	68,231	-	68,231
Capital lease payable	-	31,178	31,178
Funds held in trust for others	-	106,899	106,899
Advances from federal government	-	20,721	20,721
Revenue bonds/notes payable	4,742,507	1,633,494	6,376,001
Other noncurrent liabilities	6,328	103,000	109,328
Total long-term liabilities	4,817,066	1,932,055	6,749,121
Total liabilities	6,232,464	3,148,018	9,380,482
Net Assets:			
Invested in capital assets net of related debt	198,219	2,585,556	2,783,775
Restricted-nonexpendable:			
Instruction and research	-	125,085	125,085
Student aid	-	103,504	103,504
Other purposes	-	94,605	94,605
Total restricted-nonexpendable	-	323,194	323,194
Restricted-expendable:			
Instruction and research	-	131,134	131,134
Grants/constitutional restrictions	3,851	-	3,851
Future debt service	185,168	-	185,168
Pension fund distribution	5,211	-	5,211
Transportation programs	9,414	-	9,414
Student aid	-	102,954	102,954
Auxiliary enterprises	-	3,384	3,384
Capital projects	82,426	144,275	226,701
Other purposes	2	1,340,059	1,340,061
Total restricted-expendable	286,072	1,721,806	2,007,878
Unrestricted	528,874	3,119,243	3,648,117
Total net assets	\$ 1,013,165	\$ 7,749,799	\$ 8,762,964

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Activities
Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2005
(amounts expressed in thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental and Proprietary	Colleges and Universities	Net (Expense) Revenue
Governmental and proprietary	\$ 1,245,668	\$ 907,757	\$ 339,522	\$ 64	1,675	-	1,675
Colleges and universities	4,707,852	2,197,099	1,228,805	85,713	-	(1,196,235)	(1,196,235)
Total component units	<u>\$ 5,953,520</u>	<u>\$ 3,104,856</u>	<u>\$ 1,568,327</u>	<u>\$ 85,777</u>	1,675	(1,196,235)	(1,194,560)
General Revenues:							
					13,432	300,821	314,253
					9,843	1,326,636	1,336,479
					-	86,824	86,824
					<u>23,275</u>	<u>1,714,281</u>	<u>1,737,556</u>
					24,950	518,046	542,996
					988,215	7,231,753	8,219,968
					<u>\$ 1,013,165</u>	<u>\$ 7,749,799</u>	<u>\$ 8,762,964</u>

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Net Assets
Discretely Presented Component Units -
Governmental and Proprietary Funds
June 30, 2005
(amounts expressed in thousands)

	Proprietary			
	Indiana Bond Bank	Indiana Housing Finance Authority	Transportation Finance Authority Toll Roads	Transportation Finance Authority Airport Facilities Bonds
Assets				
Current assets:				
Cash, cash equivalents and investments	\$ 72,868	\$ 59,311	\$ 110,552	\$ 6,235
Securities lending collateral	-	-	-	-
Receivables (net)	58,280	298	4,057	320
Inventory	-	-	1,368	-
Prepaid expenses	-	-	716	-
Loans	-	-	-	-
Intergovernmental loans	755,806	-	-	-
Due from primary government	46,695	-	-	-
Investment in direct financing lease	-	-	-	-
Other current assets	-	1,389	-	-
Total current assets	933,649	60,998	116,693	6,555
Noncurrent assets:				
Cash, cash equivalents and investments - restricted	68,916	370,298	59,856	-
Taxes, interest, and penalties receivable	-	5,500	-	-
Loans receivable	-	745,067	-	-
Investments - unrestricted	-	-	-	-
Bond issuance costs, net of amortization	33,681	7,633	1,300	-
Intergovernmental loans	1,467,548	-	-	-
Due from primary government	1,397,141	-	-	-
Investment in direct financing lease	-	-	-	201,974
Other noncurrent assets	-	415	-	-
Capital assets:				
Land	-	-	28,224	-
Infrastructure	-	-	184,066	-
Construction in progress	-	-	34,276	-
Property, plant, and equipment	104	1,770	98,454	-
Less accumulated depreciation	(83)	(1,533)	(65,399)	-
Total capital assets, net of depreciation	21	237	279,621	-
Total noncurrent assets	2,967,307	1,129,150	340,777	201,974
Total assets	3,900,956	1,190,148	457,470	208,529
Liabilities				
Current liabilities:				
Accounts payable	296	909	6,844	9
Interest payable	69,239	424	6,643	298
Current portion of long-term debt	884,954	14,376	13,745	-
Line of credit	-	50,625	-	-
Due to primary government	-	-	-	-
Accrued prize liability	-	-	-	-
Salaries, health, disability, and benefits payable	-	-	2,356	-
Deferred revenue	-	-	-	-
Securities lending payable	-	-	-	-
Securities lending collateral	-	-	-	-
Deposits held in custody for others	-	663	-	-
Other current liabilities	-	-	-	-
Total current liabilities	954,489	66,997	29,588	307
Long-term liabilities:				
Accrued prize liability	-	-	-	-
Revenue bonds/notes payable	2,933,539	932,862	184,981	204,550
Other noncurrent liabilities	512	1,395	-	-
Total long-term liabilities	2,934,051	934,257	184,981	204,550
Total liabilities	3,888,540	1,001,254	214,569	204,857
Net assets				
Invested in capital assets net of related debt	21	237	82,195	-
Restricted-expendable				
Grants/constitutional restrictions	-	3,851	-	-
Future debt service	1,374	123,814	52,965	2,594
Pension fund distribution	-	-	-	-
Transportation programs	-	-	9,414	-
Capital projects	-	-	81,455	-
Other purposes	-	-	-	-
Total restricted-expendable	1,374	127,665	143,834	2,594
Unrestricted (deficit)	11,021	60,992	16,872	1,078
Total net assets	\$ 12,416	\$ 188,894	\$ 242,901	\$ 3,672

The notes to the financial statements are an integral part of this statement.

Proprietary					
Board for Depositories	Secondary Market for Education Loans	State Lottery Commission	Non-Major Governmental and Proprietary	Total Component Units	
\$ 180,049	\$ 71,223	\$ 67,503	\$ 60,672	\$ 628,413	
208,522	-	-	6,250	214,772	
1,390	15,546	30,538	985	111,414	
-	-	319	21	1,708	
-	-	2,449	109	3,274	
-	-	-	7,232	7,232	
-	-	-	-	755,806	
-	-	-	-	46,695	
-	-	-	560	560	
-	2,128	-	-	3,517	
389,961	88,897	100,809	75,829	1,773,391	
-	-	79,644	375	579,089	
-	-	-	-	5,500	
-	501,185	-	-	1,246,252	
74,190	-	-	-	74,190	
-	-	-	-	42,614	
-	-	-	-	1,467,548	
50,000	-	-	-	1,447,141	
-	-	-	8,725	210,699	
-	3,142	-	-	3,557	
-	-	-	79,205	107,429	
-	-	-	496	184,562	
-	-	-	-	34,276	
487	-	12,545	42,244	155,604	
(474)	-	(9,551)	(9,183)	(86,223)	
13	-	2,994	112,762	395,648	
124,203	504,327	82,638	121,862	5,472,238	
514,164	593,224	183,447	197,691	7,245,629	
441	1,049	25,269	345	35,162	
-	1,087	-	137	77,828	
-	6,000	-	563	919,638	
-	28,350	-	-	78,975	
-	-	27,068	-	27,068	
-	-	55,459	-	55,459	
-	-	-	69	2,425	
-	-	647	-	647	
-	-	-	16	16	
208,522	-	-	6,250	214,772	
-	-	-	789	1,452	
6	-	1,773	177	1,956	
208,969	36,486	110,216	8,346	1,415,398	
-	-	68,231	-	68,231	
-	477,850	-	8,725	4,742,507	
-	4,421	-	-	6,328	
-	482,271	68,231	8,725	4,817,066	
208,969	518,757	178,447	17,071	6,232,464	
13	-	2,994	112,759	198,219	
-	-	-	-	3,851	
-	4,421	-	-	185,168	
5,211	-	-	-	5,211	
-	-	-	-	9,414	
-	-	-	971	82,426	
-	-	-	2	2	
5,211	4,421	-	973	286,072	
299,971	70,046	2,006	66,888	528,874	
\$ 305,195	\$ 74,467	\$ 5,000	\$ 180,620	\$ 1,013,165	

State of Indiana
Combining Statement of Activities
Discretely Presented Component Units -
Governmental and Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(amounts expressed in thousands)

	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Indiana Bond Bank</u>	<u>Indiana Housing Finance Authority</u>	<u>Transportation Finance Authority Toll Roads</u>
Indiana Bond Bank	\$ 157,947	\$ 1,011	\$ 157,507	\$ -	571	-	-
Indiana Housing Finance Authority	204,584	56,174	142,322	-	-	(6,088)	-
Transportation Finance Authority Toll Roads	86,925	95,813	-	-	-	-	8,888
Transportation Finance Authority Airport Facilities Bonds	8,547	10,836	-	-	-	-	-
Board for Depositories	7,981	-	9,362	-	-	-	-
Secondary Market for Educational Loans	22,486	-	29,230	-	-	-	-
State Lottery Commission	743,430	739,633	-	-	-	-	-
Non-Major Governmental and Proprietary	13,768	4,290	1,101	64	-	-	-
Total component units	<u>\$ 1,245,668</u>	<u>\$ 907,757</u>	<u>\$ 339,522</u>	<u>\$ 64</u>	<u>571</u>	<u>(6,088)</u>	<u>8,888</u>
General revenues:							
Investment earnings					275	4,593	2,822
Payments from State of Indiana					-	-	-
Total general revenues					<u>275</u>	<u>4,593</u>	<u>2,822</u>
Change in net assets					846	(1,495)	11,710
Net assets - beginning					11,570	190,389	231,191
Net assets - ending					<u>\$ 12,416</u>	<u>\$ 188,894</u>	<u>\$ 242,901</u>

The notes to the financial statements are an integral part of this statement.

continued on next page

State of Indiana
Combining Statement of Activities
Discretely Presented Component Units -
Governmental and Proprietary Funds
For the Fiscal Year Ended June 30, 2005
(amounts expressed in thousands)

	Net (Expense) Revenue and Changes in Net Assets					
	Transportation Finance Authority Airport Facilities Bonds	Board for Depositories	Secondary Market for Education Loans	State Lottery Commission	Non-Major Governmental and Proprietary	Net (Expense) Revenue
Indiana Bond Bank	-	-	-	-	-	571
Indiana Housing Finance Authority	-	-	-	-	-	(6,088)
Transportation Finance Authority Toll Roads	-	-	-	-	-	8,888
Transportation Finance Authority Airport Facilities Bonds	2,289	-	-	-	-	2,289
Board for Depositories	-	1,381	-	-	-	1,381
Secondary Market for Educational Loans	-	-	6,744	-	-	6,744
State Lottery Commission	-	-	-	(3,797)	-	(3,797)
Non-Major Governmental and Proprietary	-	-	-	-	(8,313)	(8,313)
Total component units	2,289	1,381	6,744	(3,797)	(8,313)	1,675
General revenues:						
Investment earnings	170	-	-	3,909	1,663	13,432
Payments from State of Indiana	-	-	-	-	9,843	9,843
Total general revenues	170	-	-	3,909	11,506	23,275
Change in net assets	2,459	1,381	6,744	112	3,193	24,950
Net assets - beginning	1,213	303,814	67,723	4,888	177,427	988,215
Net assets - ending	\$ 3,672	\$ 305,195	\$ 74,467	\$ 5,000	\$ 180,620	\$ 1,013,165

State of Indiana
Combining Statement of Net Assets
Discretely Presented Component Units -
Colleges and Universities
June 30, 2005
(amounts expressed in thousands)

	Indiana University	Purdue University	Non-Major Colleges and Universities	Totals
Assets				
Current assets:				
Cash, cash equivalents and investments	\$ 425,088	\$ 316,265	\$ 259,500	\$ 1,000,853
Securities lending collateral	281,035	215,068	-	496,103
Receivables (net)	124,424	67,751	91,750	283,925
Inventory	17,324	6,886	10,577	34,787
Prepaid expenses	-	4,053	10,784	14,837
Funds held in trust by others	-	205	63,180	63,385
Other current assets	12,228	16,151	1,577	29,956
Total current assets	860,099	626,379	437,368	1,923,846
Noncurrent assets:				
Cash, cash equivalents and investments - restricted	58,687	1,376,020	67,037	1,501,744
Other receivables	78,894	65,961	19,738	164,593
Investments - unrestricted	1,600,482	719,603	482,868	2,802,953
Loans	-	225	-	225
Bond issuance costs net of amortization	-	-	120	120
Due from primary government	39,813	27,992	33,897	101,702
Investment in direct financing lease	31,208	-	-	31,208
Other noncurrent assets	-	46,386	24,983	71,369
Capital assets:				
Land	46,913	21,492	90,571	158,976
Infrastructure	132,844	45,206	60,833	238,883
Construction in progress	108,442	165,940	100,505	374,887
Property, plant, and equipment	2,820,278	2,011,420	1,578,822	6,410,520
Less accumulated depreciation	(1,292,576)	(921,298)	(669,335)	(2,883,209)
Total capital assets, net of depreciation	1,815,901	1,322,760	1,161,396	4,300,057
Total noncurrent assets	3,624,985	3,558,947	1,790,039	8,973,971
Total assets	4,485,084	4,185,326	2,227,407	10,897,817
Liabilities				
Current liabilities:				
Accounts payable	163,043	36,491	37,447	236,981
Interest payable	-	-	1,742	1,742
Current portion of long-term debt	33,410	27,043	33,727	94,180
Capital lease payable	1,778	-	32	1,810
Salaries, health, disability, and benefits payable	-	10,398	17,377	27,775
Deferred revenue	180,467	41,718	15,990	238,175
Accrued liability for compensated absences	30,928	21,686	6,367	58,981
Securities lending collateral	281,035	215,068	-	496,103
Deposits held in custody for others	-	20,872	9,644	30,516
Other current liabilities	-	22,573	7,127	29,700
Total current liabilities	690,661	395,849	129,453	1,215,963
Long-term liabilities:				
Accrued liability for compensated absences	7,910	17,014	11,839	36,763
Capital lease payable	31,041	-	137	31,178
Funds held in trust for others	46,625	56,328	3,946	106,899
Advances from federal government	-	20,721	-	20,721
Revenue bonds/notes payable	582,347	531,046	520,101	1,633,494
Other noncurrent liabilities	88,217	8,254	6,529	103,000
Total long-term liabilities	756,140	633,363	542,552	1,932,055
Total liabilities	1,446,801	1,029,212	672,005	3,148,018
Net assets				
Invested in capital assets net of related debt	1,205,240	727,659	652,657	2,585,556
Restricted-nonexpendable				
Instruction and research	-	125,085	-	125,085
Student aid	-	99,254	4,250	103,504
Other purposes	59,977	24,209	10,419	94,605
Total restricted-nonexpendable	59,977	248,548	14,669	323,194
Restricted-expendable				
Instruction and research	61,035	69,515	584	131,134
Student aid	18,560	60,239	24,155	102,954
Auxiliary enterprises	-	3,384	-	3,384
Capital projects	4,435	66,401	73,439	144,275
Other purposes	25,124	1,079,811	235,124	1,340,059
Total restricted-expendable	109,154	1,279,350	333,302	1,721,806
Unrestricted (deficit)	1,663,912	900,557	554,774	3,119,243
Total net assets	\$ 3,038,283	\$ 3,156,114	\$ 1,555,402	\$ 7,749,799

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combining Statement of Activities
Discretely Presented Component Units -
Colleges and Universities
For the Fiscal Year Ended June 30, 2005
(amounts expressed in thousands)

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Indiana University	Purdue University	Non-Major Colleges and Universities	Net (Expense) Revenue
Indiana University	\$ 2,202,468	\$ 1,135,417	\$ 590,294	\$ 16,774	(459,983)	-	-	(459,983)
Purdue University	1,440,931	660,924	349,351	65,873	-	(364,783)	-	(364,783)
Non-Major Colleges and Universities	1,064,453	400,758	289,160	3,066	-	-	(371,469)	(371,469)
Total component units	<u>\$ 4,707,852</u>	<u>\$ 2,197,099</u>	<u>\$ 1,228,805</u>	<u>\$ 85,713</u>	<u>(459,983)</u>	<u>(364,783)</u>	<u>(371,469)</u>	<u>(1,196,235)</u>
General revenues:								
Investment earnings					132,859	125,378	42,584	300,821
Payments from State of Indiana					530,565	358,957	437,114	1,326,636
Other					1,758	82,068	2,998	86,824
Total general revenues					<u>665,182</u>	<u>566,403</u>	<u>482,696</u>	<u>1,714,281</u>
Change in net assets					205,199	201,620	111,227	518,046
Net assets - beginning, as restated					2,833,084	2,954,494	1,444,175	7,231,753
Net assets - ending					<u>\$ 3,038,283</u>	<u>\$ 3,156,114</u>	<u>\$ 1,555,402</u>	<u>\$ 7,749,799</u>

The notes to the financial statements are an integral part of this statement.



NOTES TO THE FINANCIAL STATEMENTS



STATE OF INDIANA

Notes to the Financial Statements June 30, 2005

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STATE OF INDIANA
Notes to the Financial Statements
June 30, 2005
(schedule amounts are expressed in thousands)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units. Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in one column in the government-wide financial statements. This column contains the governmental and proprietary fund types and colleges and universities. This is to emphasize that, as well as being legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Indiana Housing Finance Authority has a December 31, 2004, year-end.

Blended Component Units

The following are blended component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. Although they are legally separate from the State, the units are reported as if they were part of the State because they provide services entirely or almost entirely to the State. All of these component units are audited by auditors other than the State Board of Accounts.

The Indiana Transportation Finance Authority Highway Bonds Fund accounts for the financing of improvements for highway road and bridge projects that are managed by the Indiana Department of Transportation. The unit is reported as an internal service fund.

The State Office Building Commission was created to issue revenue bond debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to construct certain correctional facilities, as well as additional infrastructure and transportation facilities. The Commission is reported as an internal service fund.

The Recreational Development Commission was created to provide funds for projects involving the Department of Natural Resources' (DNR) properties.

The six member commission includes the Treasurer of State, Director of DNR, Budget Director, and three gubernatorial appointees. The Commission is reported as an internal service fund.

Discretely Presented Component Units

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All governmental and proprietary component units are audited by outside auditors.

The Indiana Bond Bank, created in 1984, is controlled by a board composed of the Treasurer of State, Director of the Department of Financial Institutions and five appointees of the Governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of State and local governments. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority's board consists of the Public Finance Director of the Indiana Finance Authority, the Lieutenant Governor, the State Treasurer and four persons appointed by the Governor. The Lieutenant Governor chairs the board. The unit is reported as a proprietary fund.

The Indiana Transportation Finance Authority (ITFA) was established to include the construction, reconstruction and improvement of all toll roads, toll bridges, State highways, bridges, and streets and roads. The Authority was further authorized to finance improvements related to an airport or aviation-related property or facilities including the acquisition of real property. The Authority is reported in various proprietary and governmental funds.

The Indiana Board for Depositories was established to ensure the safekeeping and prompt payment of all public funds deposited in Indiana banks. The Board, consisting of the Governor, Treasurer of State, Auditor of State, Chairman of the Commission for Financial Institutions, State Examiner of the State Board of Accounts and four members appointed by the

Governor, provides insurance on public funds in excess of the \$100,000 Federal Deposit Insurance Corporation limit. The unit is reported as a proprietary fund.

The Indiana Secondary Market for Education Loans, Inc. (ISM) was formed at the request of the Governor to purchase education loans in the secondary market. The Governor appointed the original Board of Directors. ISM provides in its articles of incorporation that changes in the composition of its directors or in its bylaws are subject to the approval of the Governor. The unit is reported as a proprietary fund.

The State Lottery Commission of Indiana is composed of five members appointed by the Governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, public employees' retirement, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement Motor Vehicle Excise Tax Replacement Fund. The Commission is reported as a proprietary fund.

The Indiana Development Finance Authority (IDFA) provides job-creating industrial development projects with access to capital markets where adequate financing is otherwise unavailable. The Authority is governed by a board consisting of the Lieutenant Governor, the Treasurer of State, and seven members appointed by the Governor. The Authority is reported as a governmental fund.

The White River State Park Development Commission has the responsibility to design and implement a plan for the establishment and development of park, exposition, educational, athletic, and recreational projects to be located within one mile from the banks of the Indiana White River in a consolidated first-class city and county. The Commission is reported as a proprietary fund.

The Indiana Bond Bank, the Indiana Housing Finance Authority, the Indiana Transportation Finance Authority (ITFA) – Toll Road, the ITFA – Airport Facilities Bonds, the Indiana Board for Depositories, the Indiana Secondary Market for Education Loans and the State Lottery Commission were determined to be significant for note disclosure purposes involving the discretely presented component units.

Effective July 1, 2000, the Public Employees' Retirement Fund (PERF) became an independent body corporate and politic. PERF is not a department

or agency for the State but is an independent instrumentality exercising essential government functions. The PERF board is composed of five trustees appointed by the Governor. The board of trustees administers the following funds: Public Employees' Retirement Fund, Judges' Retirement System, Excise Police and Conservation Enforcement Officers' Retirement Plan, the 1977 Police Officers' and Firefighters' Pension and Disability Fund, the Legislators' Retirement System Defined Benefit Plan, the Legislators' Retirement System Defined Contribution Plan, the Prosecuting Attorneys' Retirement Fund, the Pension Relief Fund, and two death benefit funds. For more information on PERF see Note V(H) Employee Retirement Systems and Plans. All of these funds have been aggregated for presentation in the Discretely Presented Component Units' financial statements.

Effective July 1, 2000, the Teachers' Retirement Fund (TRF) became an independent body corporate and politic. TRF is not a department or agency for the State but is an independent instrumentality exercising essential government functions. The TRF board is composed of five trustees appointed by the Governor. For more information on TRF see Note V(H) Employee Retirement Systems and Plans.

The Public Employees' Retirement Fund and the Teachers' Retirement Fund were determined to be significant for note disclosure purposes involving the discretely presented fiduciary component units.

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; Ivy Tech Community College has a fourteen-member board of trustees. Appointments to the boards of trustees are made by the Governor and by election of the alumni of the respective universities

The primary government's officials are also responsible for appointing the members of the boards of other organizations, but the primary government's accountability for these organizations does not extend beyond making the appointments.

The financial statements of the individual component units may be obtained from their administrative offices as follows:

Indiana Transportation Finance Authority
One North Capitol, Suite 900
Indianapolis, IN 46204

Recreational Development Commission
c/o Treasurer of Indiana
242 State House
Indianapolis, IN 46204

State Lottery Commission of Indiana
Pan Am Plaza
201 S. Capitol, Suite 1100
Indianapolis, IN 46225

State Office Building Commission
Government Center South, W478
402 W. Washington Street
Indianapolis, IN 46204

Indiana Development Finance Authority
One North Capitol, Suite 900
Indianapolis, IN 46204

Secondary Market for Education Loans, Inc.
111 Monument Circle, Suite 202
Indianapolis, IN 46204

Indiana Board for Depositories
One North Capitol Ave, Suite 444
Indianapolis, IN 46204

Indiana Bond Bank
10 West Market St. Suite 2980
Indianapolis, IN 46204

Indiana Housing Finance Authority
30 South Meridian, Suite 1000
Indianapolis, IN 46204

Accounting Services
Attn: Purdue University
401 South Grant Street
West Lafayette, IN 47907-2024

Diana M. Biggs
Director of Internal Audit
University of Southern Indiana
8600 University Boulevard
Evansville, IN 47712

Office of the Vice President and CFO
Attn: Joan Hagen
Poplar's Room. 500, 107 S. Indiana Ave.
Indiana University
Bloomington, IN 47405-1202

Mark Husk
Assistant Treasurer
Ivy Tech Community College
50 West Fall Creek Parkway North Drive
Indianapolis, IN 46208

Linda Waldroup, Controller
Vincennes University
1002 North 1st Street
Vincennes, IN 47591

William A. McCune, Controller
Administration Bldg., 301
2000 West University Avenue
Ball State University
Muncie, IN 47306

Jeffery J. Jacso
Assistant Controller Financial Accounting
Office of the Controller
Indiana State University
200 N. 7th Street
Terre Haute, IN 47809

State of Indiana
Public Employees' Retirement Fund
Harrison Building
143 West Market Street
Indianapolis, IN 46204

Indiana State Teachers' Retirement Fund
150 West Market Street, Suite 300
Indianapolis, IN 46204-2809

Indiana White River State Park Development
Commission
801 West Washington Street
Indianapolis, IN 46204

B. Government-Wide and Fund Financial Statements

The government-wide financial statements consist of a statement of net assets and a statement of activities. These statements report information about the overall government. They exclude information about fiduciary activities, including component units, which are fiduciary in nature, such as the public employee retirement systems. They distinguish between the primary government and its discretely presented component units as defined under the reporting entity above. They also distinguish between governmental activities and business-type activities of the State. Governmental activities rely on taxes and intergovernmental revenues for their support. Business-type activities, on the other hand, rely on fees and charges for services provided for their support.

The statement of activities matches the State's direct functional expense with the functional program revenue to identify the relative financial burden of each of the State's functions. This format identifies the extent to which each function of the government draws from the general revenues of the government or is self-financing through fees and

intergovernmental aid. Certain indirect costs are included in the program expense reported for individual functions of government. Program revenues derive directly from the program itself or from parties outside the State's taxpayers, as a whole. They reduce the net cost of the function to be financed from the general revenues. Program revenues include charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. Revenues that do not meet the criteria of program revenues are general revenues. These include all taxes, even those levied for a specific purpose and are reported by type of tax. Investment income is also a general revenue.

Separate financial statements are presented for the State's governmental, proprietary and fiduciary funds. Governmental fund financial statements are the balance sheet and the statement of revenues, expenditures, and changes in fund balances. Major governmental funds are presented in separate columns and non-major funds are aggregated in a separate column. Proprietary and fiduciary funds are

reported using the statement of net assets and the statement of changes in net assets. In addition proprietary funds include a statement of cash flows.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement Focus and Basis of Accounting

The government-wide statements and the proprietary and fiduciary fund statements use the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Government-mandated nonexchange revenues and voluntary nonexchange revenues, including federal government mandates on the State, certain grants and entitlements, and most donations, are recognized in the period when all applicable eligibility requirements have been met.

For the government-wide financial statements and enterprise and fiduciary fund statements, the State applies all applicable FASB pronouncements issued before December 1, 1989, and those issued after that date which do not contradict any previously issued GASB pronouncements.

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For the State of Indiana, "available" means collectible within one month of the fiscal year end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and related liabilities, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Individual and corporate income tax, sales tax, inheritance tax, cigarette tax, alcoholic beverage tax, motor fuel tax, fines, and penalties are accrued using one month's revenues.

Gaming taxes and fees and vehicle licenses are received daily via electronic funds transfer with a one working day delay, so the first working day in July revenues are reviewed for materiality and accrued accordingly.

Financial Statement Presentation A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Governmental funds are used to account for the government's general government activities. Governmental funds include the general fund, special revenue funds, capital projects funds, debt service funds and permanent funds.

The *General Fund* is the State's primary operating fund. It is maintained to account for resources obtained and used for those services traditionally provided by State government, which are not required to be accounted for in another fund. The General Fund is a major fund.

The *special revenue* funds account for revenue sources that are legally restricted to expenditure for specific purposes except for major capital projects.

The following special revenue funds are presented as major.

- The *Motor Vehicle Highway Fund* collects motor fuel taxes, special fuel taxes, motor carrier surtaxes, and vehicle license fees for public safety programs and distributions to local units of government for transportation programs.
- The *Medicaid Assistance Fund* receives federal grants and State appropriations which are used to administer the Medicaid program.
- The *State Highway Department Fund* receives federal grants and State appropriations that are used for State transportation programs.
- The *Property Tax Replacement Fund* receives corporate income tax and sales tax which is used for education and property tax replacement distributions to local units of government.
- The *Tobacco Settlement Fund* is used to account for funds received under the tobacco master settlement agreement and is used to fund the children's health insurance program.

- The *Build Indiana Fund* receives gaming revenues and uses them to fund local capital project.

The *capital projects funds* account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or fiduciary funds.

The *permanent funds* are used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for the benefit of the government or its citizens. There are no major permanent funds.

Proprietary funds focus on the determination of operating income, changes in net assets, financial position and cash flows. Operating revenues and expenses are the revenues and expenses that pertain to the fund's principal operations. Nonoperating revenues and expenses are those revenues resulting from secondary or auxiliary activities of the fund. Nonoperating items include interest/investment revenue and expense. Proprietary funds include both enterprise funds and internal service funds.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The State reports the following major enterprise funds:

- The *State Revolving Fund* uses proceeds from bonds issued by the Indiana Bond Bank to assist qualified entities in obtaining below market financing for water pollution control projects.
- The *Unemployment Compensation Fund* collects employer taxes and the federal share of unemployment compensation. Benefits are paid to eligible individuals.

Internal service funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The services provided include fleet management, information technology and communication, printing, debt financing, and self-insurance. Major fund reporting requirements do not apply to internal service funds. Combined totals for all internal service funds are reported as a separate column on the face of the proprietary fund financial statements.

Fiduciary funds account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others. They cannot be used to

support the State's own programs. Fiduciary funds include pension (and other employee benefit) trust funds, private-purpose trust funds, and agency funds. *Pension (and other employee benefit) trust funds* are used to report resources held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, and other post-employment benefit plans. Pension trust funds include the Deferred Compensation Plan Fund and the State Police Pension Fund.

Private-purpose trust funds are used to account for trust arrangements in which both the principal and interest may be spent for the benefit of individuals, private organizations or other governments. Private Purpose funds include the Property Custody Fund, the Abandoned Property Fund, the Unclaimed Funds Fund, and the Private Purpose Trust Fund.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. These funds are used to account for assets that the government holds for others in an agency capacity. Agency Funds include Employee Payroll Withholding and Benefits, Local Distributions, Child Support and Department of Insurance.

D. Assets, Liabilities and Equity

1. Deposits, Investments and Securities Lending

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity (generally three months or less from the date of acquisition). Cash and cash equivalents are stated at cost, which approximates fair value, except for the cash and cash equivalents of the Tobacco Settlement Fund, which are at fair value.

Cash balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interest earned from investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments and secured lending transactions are stated at fair value. However, money market investments and participating interest-earning investment contracts that mature within one year of acquisition are reported at amortized cost, which approximates fair value. Fair value is determined by quoted market prices which approximate fair value.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The Treasurer of State is authorized by statute to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least \$10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50% of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Bond indentures of the Indiana Transportation Finance Authority authorize investments in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, savings accounts, certificates of deposit (CDs) and repurchase agreements (repos) secured by government securities.

The State Office Building Commission trust indentures authorize obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, new Housing Authority bonds, savings and CDs, repos and reverse repos secured by government securities, investment agreements and commercial paper. Indiana Code permits investment in shares of management type investment trusts provided those trusts invest in securities of the types specified above.

Money held in the trust fund of the State Lottery Commission for the deferred payment of prizes may be invested by the Treasurer of State in annuities sold by an insurance company licensed to do business in Indiana (A.M. Best rating of A or equivalent) or in direct U.S. Treasury obligations.

Investments of the Recreational Development Commission will be kept in depositories designated as depositories for funds of the State as selected by the Commission, in the manner provided by IC 5-13-9. The investments of the State's retirement systems are governed by separate investment guidelines.

Investments which are authorized for the State

Teachers' Retirement Fund include: U.S. Treasury and Agency obligations, State and municipal obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage securities, venture capital and partnerships, and real estate. Investments which are authorized for the State Police Retirement fund include: U.S. Treasury and Agency obligations, State and municipal obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage pool investments, and repurchase agreements. The remaining six retirement systems and the Pension Relief Fund are administered by the Public Employees' Retirement Fund Board. The Board is required to diversify investments in accordance with prudent investment standards. Investment guidelines, issued by the Board, contain limits and goals for each type of investment portfolio, and specify prohibited transactions. These guidelines authorized investments of: U.S. Treasury and Agency obligations, domestic corporate bonds/notes, common stock and equity securities, foreign stocks and bonds, mortgage securities, mutual funds, asset backed, commercial mortgage backed, international stocks, and real estate.

Certain deposits of State funds are entrusted to an outside agent to invest and disburse as per federal requirements or contract. The State Revolving Fund is held by a fiscal agent and included as an enterprise fund.

2. *Receivables and Payables*

In the government-wide and proprietary fund financial statements, revenues are recognized on the flow of economic resources measurement focus. Material receivables are recognized as follows. Uncollected taxes due in the following periods are subject to accrual.

Individual income tax – Individual withholding tax is due from employers by the 20th day after the end of the month collected. Estimated payments are due from individuals by the 15th of the month immediately following each quarter or the calendar year.

Corporate income tax - Due on or before the last day of the month immediately following each quarter of the calendar year.

Sales tax – Due by the 20th day after the end of the month collected.

Fuel tax – Gasoline tax is due the 20th day after the end of the month collected. Special fuel tax, depending on the status of the taxpayer, is due by the 15th day after the end of the month

collected or the 15th day after the end of the quarter collected. Motor carrier surtax is due at the end of the month following the end of the quarter.

Financial institutions tax – due on or before the fifteenth day of the fourth month following the close of the taxpayer's taxable year.

Alcohol and tobacco taxes – Cigarette distributors purchase tax stamps within 6 days after they accept delivery of the cigarettes. Cigarette tax is due within 30 days of the issuance of the tax stamp. Alcoholic beverage tax is due by the 20th day after the end of the month collected.

Inheritance tax – due nine months after the decedent's date of death.

In the governmental fund financial statements, revenue is recognized on the flow of current financial resources. Material receivables are subject to accrual for receipts collected in the month of July.

The State of Indiana does not collect property tax, which is collected by local units of government; a minor portion is remitted to the State semiannually (June and December) for distribution to the State Fair Commission, Department of Natural Resources and Family and Social Services Administration.

3. *Interfund Transactions and Balances*

The State has the following types of interfund transactions in the governmental fund and proprietary financial statements:

Interfund service provided and used (reciprocal interfund activity) – Charges for goods or services rendered by one fund to another are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.

Interfund Transfers (non-reciprocal interfund activity) – Legally authorized transfers whereby the two parties do not receive equivalent cash, goods or services are reported as transfers.

The types of assets and liabilities resulting from these transactions are:

Interfund loans – These are balances arising from the short-term and long-term portion of interfund transactions.

Interfund services provided/used – These are balances arising in connection with reciprocal interfund activity or reimbursements. Balances

relating to discretely presented component units are presented as 'Due from/to component units'.

Interfund services provided and interfund loans are eliminated in the government-wide statements because they are provided by one governmental activity on behalf of another or by one business-type activity on behalf of another.

4. *Inventories and Prepaid Items*

Inventories for the Inns & Concessions, Institutional Industries and Administration Services Revolving are valued at cost. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. *Restricted Net Assets*

Certain net assets are classified as restricted net assets because their use is completely restricted by bond indentures, contracts, grantors, contributors, laws or regulations of other governments, or through constitutional provisions or enabling legislation.

6. *Capital Assets*

Capital outlays are reported as expenditures in the governmental funds and as assets in the government-wide statements to the extent the State's \$20,000 capitalization threshold is met. In accordance with GASB Statement No. 34, all infrastructure assets have been capitalized retroactively.

The Indiana Department of Transportation (INDOT) uses the modified approach for reporting its infrastructure. The Department of Natural Resources (DNR) uses the depreciation approach for reporting its infrastructure.

Under the modified approach, the State has determined that the condition level for INDOT infrastructure assets to be maintained is:

- an average Pavement Quality Index (PQI) of 75 for Interstate and National Highway Safety (NHS) Non-Interstate roads,
- an average PQI of 65 for Non-NHS roads,
- an average sufficiency rating of 87% for interstate bridges,
- an average sufficiency rating of 85% for NHS Non-Interstate bridges, and
- an average sufficiency rating of 83% for Non-NHS bridges.

The Division of Program Development of INDOT is responsible for determining the appropriate condition level of the infrastructure assets.

No amounts are capitalized in connection with improvements that lengthen the lives of such assets, unless the improvements also increase their service potential.

The State maintains an inventory of these infrastructure assets and performs periodic condition assessments to establish that the predetermined condition level is being maintained. Condition assessments are determined on an annual basis for interstates and on a biennial basis for other roads. Sufficiency ratings are determined at least on a biennial basis for all bridges and more frequently for certain bridges depending on their design.

The State makes annual estimates of the amounts that must be expended to preserve and maintain these infrastructure assets at the predetermined condition levels.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation.

Capital assets are depreciated in the proprietary and similar trust funds using the straight-line method on both the fund basis and the government-wide basis. Both the government-wide statements and proprietary and similar trust funds use the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Improvements other than buildings	10-20
Infrastructure (not using modified approach)	20
Furniture, machinery and equipment	5-14
Motor Pool Vehicles	10 ¢ / mile

The State of Indiana maintains several collections of works of art, historical treasures, and similar assets that are not capitalized. While the collections are maintained by different agencies, each collection is:

- Held for public exhibition, education, or research in furtherance of public service, rather than financial gain.
- Protected, kept unencumbered, cared for, and preserved.
- Subject to an organizational policy that either prohibits sale or requires the proceeds from sales of collection items to be used to acquire other items for collections.

The State's major collections are:

- The State Museum Collection, which is a part of the Indiana Department of Natural Resources, consists of historical buildings and furnishings; personal artifacts; tools and equipment; communication, transportation, recreational and societal artifacts; and art objects.
- The Commission on Public Records, State Archives Collection consists of historical and legal documents, that are generated on: paper or paper substitutes; photographic or chemically based media; magnetic or machine readable media; or any other materials, regardless of form or characteristics.
- The State Library has two collections, the Manuscript Collection and the Indiana History Collection. These collections include historical documents and works of art, most of it of Indiana origin.

Other collections include the Historical Bureau's Indiana Governors' Portrait Collection, the Department of Administration's Statehouse Collection, and the Indiana Arts Commission's Collection. These collections consist primarily of art objects.

7. *Compensated Absences*

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment.

Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days. In addition, qualifying retiring employees are paid an additional payment up to a maximum of \$5,000, which is made up of unused vacation leave over 30 days, unused personal leave, and unused sick leave.

Employees of the legislative and judicial branches may convert a portion of accrued but unused vacation and sick leave into the deferred compensation plan. An employee must have at least 300 hours of vacation or sick leave accrued in order to participate in this plan. There is a sliding scale which determines how many hours are converted from those hours the employee has accrued. The hours converted are

deposited into the deferred compensation program's 401(a) plan at 60% of the employee's hourly rate.

Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported as long term liabilities in government-wide and proprietary and fiduciary fund financial statements.

8. Long-Term Obligations

Long-term debt and other obligations are reported in the government-wide statements and the proprietary funds statements as liabilities in the applicable governmental activities, business-type activities, or proprietary fund.

In the governmental fund financial statements, bond issuance costs and bond discounts are treated as period costs in the year of issue. Proceeds of long term debt, issuance premiums or discounts and certain payments to escrow agents for bond refundings are reported as other financing sources and uses.

9. Fund Equity

In the fund financial statements, reservations of fund equity represent those portions of fund balances that are legally restricted by outside parties for a specific purpose or are not appropriable. In the accompanying balance sheet, reserves for encumbrances and tuition support are examples of the former. Reserves for intergovernmental loans and advances receivables are examples of the latter. The following is a brief description of each reserve and the purpose for which it was established:

Reserve for Tuition Support – established to recognize that the legislature has set aside

money, as determined by the State Budget Agency, for paying the monthly distributions to local school units at the beginning of the succeeding fiscal year.

Reserve for Encumbrances – established to recognize money set aside out of one year's budget for goods and/or services ordered during that year that will not be paid for until they are received in a subsequent year.

Reserve for Restricted Purposes – established to recognize legal limitations that specify the purpose or purposes for which resources derived from government-mandated and voluntary nonexchange transactions are to be used.

Reserve for Prepaid Items – established to recognize payments made in advance of receipt of goods and services in an exchange transaction.

Reserve for Interfund Loans – established to recognize short-term and long-term loans issued to other funds within this government and therefore not currently available for expenditure.

Reserve for Intergovernmental Loans – established to recognize that the legislature has set aside money to lend to local units of government for specific purposes. These amounts are loans to individual school corporations, cities, towns, counties and other governmental units. Additionally, the general fund lends money to nonprofit entities. All loans require review and approval of the Board of Finance prior to issuance.

Reserve for Debt Service, Special Purposes – established to recognize that certain amounts have been set aside for debt service and for purposes specific to a particular component. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

As described in Note I, Summary of Significant Accounting Policies, differences exist between the government-wide and the governmental fund financial statements. These differences are summarized in the reconciliations that follow the governmental fund financial statements.

A. Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

In the government-wide financial statements, capital assets are considered economic resources and are capitalized at cost or estimated historical cost at time of acquisition. Where applicable these costs are offset by accumulated depreciation.

The government-wide statements use the flow of economic resources and accrue receivables that are not available soon enough in the subsequent period to pay for the current period's expenditures. Also under the flow of economic resources, expenses reported in the statement of activities do not require the use of current financial resources. Both these receivables and payables are accrued in the government-wide statements, but not in the fund financial statements.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. In the proprietary fund financial statements internal service fund balances are segregated and reported as their own fund type.

B. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

In the government-wide financial statements, the cost for capital outlays, except for governmental infrastructure, is allocated over the assets' useful lives and is reported as depreciation expense. In the fund financial statements, capital outlays are reported as expenditures.

The government-wide statements use the flow of economic resources and therefore do not report revenues and expenses dependent on the availability of financial resources, as is reported in the fund financial statements. Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund financial statements. Expenses reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the fund financial statements. Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental fund financial statements, but the repayment reduces long-term liabilities in the statement of net assets.

Internal service funds are used by management to charge the costs of certain activities to individual funds. In the government-wide financial statements, the expenses of internal service funds are included in governmental activities in the statement of activities. In the proprietary fund financial statements internal service fund balances are segregated and reported as their own fund type.

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Governor submits a budget biennially to be adopted by the General Assembly for the ensuing two-year period. The budget covers the general fund and most special revenue funds, but excludes the Armory Board and the Recreation funds at State institutions. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated revenues. Appropriations for programs funded from special revenue funds may allow expenditures in excess of original appropriations to the extent that revenues collected exceed estimated revenues.

The original budget is composed of the budget bill and continuing appropriations. The budget bill is enacted as the Appropriations Act that the Governor may veto, subject to legislative override. Continuing appropriations report budgeted expenditures as equal to the amount of revenues received during the year plus any balances carried forward from the previous year as determined by statute. Except as specifically provided by statute, appropriations or any part thereof remaining unexpended and unencumbered at the close of any fiscal year will lapse and be returned to the fund from which it was appropriated.

The final budget is composed of budgeted amounts as adopted and as amended by supplemental appropriations or appropriation transfers that were necessary during the current year. The State Board of Finance, which consists of the Governor, Auditor of State and Treasurer of State, is empowered to transfer appropriations from one fund of the State to

another, with the exception of trust funds. The State Budget Agency may transfer, assign, and reassign almost any appropriation, except those restricted by law; but only when the uses and purposes of the funds concur. Excess general fund revenue is used to cover non-budgeted recurring expenditures and overdrafts of budgeted amounts at the end of the current year. Capital appropriations are initially posted to general government. As projects are approved by the State Budget Committee the appropriations are transferred to the function of government from which they are disbursed. In addition, expenditures under many federal grants are required to be spent before they are reimbursed by the federal government. These actions are considered supplemental appropriations; therefore, expenditures do not exceed appropriations for individual funds.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the fund level by the State Budget Agency. When budgets are submitted for each fund center, certain recurring expenditures are not budgeted (medical service payments, unemployment benefits, tort claims) according to instructions from the State Budget Agency to the various agencies. The Budget Agency monitors all fund centers regularly in addition to monitoring excess general fund revenue that will be available at the end of the fiscal year to cover the non-budgeted, recurring expenditures.

B. Deficit Fund Equity

At June 30, 2005, various funds had a deficit fund balance caused by overdrafts from pooled cash and investments and the posting of accruals to the

balance sheet. Temporary cash overdrafts are reported as interfund loans from the general fund.

Fund	Overdraft from pooled cash	Accrual deficits
Governmental Funds		
Motor Vehicle Highway Fund	\$ -	\$ (17,834)
Medicaid Assistance	(37,095)	-
Property Tax Relief Fund	-	(1,091,034)
County Welfare Administration	-	(10,904)
Federal Food Stamp Program	(1,721)	(216)
Major Construction Army National Guard	(3,662)	-

C. Unreserved Fund Balance

The State of Indiana designates its unreserved fund balance as designated for appropriations, designated for allotments, and undesignated. In order for money to be spent out of a fund it must be appropriated by

the legislature and then allotted by the State Budget Agency. The following are the designations of unreserved fund balance at June 30, 2005:

Unreserved Fund Balance				
	Designations of Unreserved Fund Balance			Total Unreserved Fund Balance
	Designated for Appropriations	Designated for Allotments	Undesignated	
Governmental Funds				
General Fund	\$ 219,417	\$ 396,039	\$ 221,038	\$ 836,494
Motor Vehicle Highway Fund	-	-	(25,426)	(25,426)
Medicaid Assistance	-	-	(37,144)	(37,144)
Build Indiana Fund	47,984	-	-	47,984
State Highway Department	-	-	(583,777)	(583,777)
Property Tax Replacement Fund	-	-	(1,091,034)	(1,091,034)
Tobacco Settlement Fund	210,343	-	344	210,687
Non-Major Special Revenue Funds	167,838	678,937	9,109	855,884
Non-Major Capital Projects Funds	46,078	25,386	9,820	81,284
Non-Major Permanent Funds	-	122,659	1,346	124,005
Total Governmental Funds	\$ 691,660	\$ 1,223,021	\$ (1,495,724)	\$ 418,957

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits, Investments and Securities Lending

1. Primary Government

a. Governmental Activities

Investment Policy

Indiana Code, Title 5, Article 13, Chapters 9, 10, and 10.5, establishes the investment powers and guidelines regarding the State of Indiana investments. However, the Indiana Tobacco Master Settlement Agreement Fund has separate investment authority as established under Indiana Code 4-12-1-14.3 to be invested in the same manner as the public employees' retirement fund (PERF) under Indiana Code 5-10.3-5. For more information, please see the PERF policy in IV(A) 2-c.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The investment policy of the State Office Building Commission, an internal service fund, states that all

cash and investments are held by, or in the name of, JP Morgan Trust Company, NA, as trustee under certain indentures of trusts (Trust Indentures) pertaining to the Commission and the bonds issued in connection with the Commission. Pursuant to the Commission's enabling statutes, the investments permitted by the Trust Indentures represent investment policy choices that make the generally applicable provisions of Indiana Code 5-13 inapplicable to the Commission's investments.

The investment policy of the Indiana Transportation Finance Authority Highway Bonds, an internal service fund, states that investment guidelines are dictated by Indiana statute and related trust indentures.

Although the Unemployment Compensation Fund is an enterprise fund (business-type activities), its deposits and investments are pooled with the deposits and investments of other funds that are part of governmental activities. The Treasurer cannot break them out by investment type at the fund level. Therefore, the Unemployment Compensation Fund is included with governmental activities in the following analysis.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2005:

Governmental Activities					
(Amounts are in thousands)					
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
Treasurer of State					
U.S. Treasuries	\$ 19,316	\$ -	\$ 17,202	\$ 178	\$ 1,936
U.S. Agencies	1,872,886	1,818,274	54,612	-	-
Mortgage Backed		-	-	-	-
Government Pass-Through	10,614	-	1,710	275	8,629
Corporate Pass-Through	3,227	282	244	-	2,701
Collateralized Mortgage Obligations		-	-	-	-
Govt CMO's	27,230	-	810	1,356	25,064
Corp CMO's	10,708	-	-	-	10,708
Corporate Bonds	22,229	3,988	10,603	3,818	3,820
Corporate Asset Backed	15,051	-	10,480	631	3,940
Private Placements	6,648	630	3,039	103	2,876
Municipal Bonds	6,729	252	806	1,912	3,759
Yankee Bonds	1,935	435	832	248	420
Supernational	1,166	459	707	-	-
Non-U.S. Fixed Income	7,711	-	689	3,164	3,858
Certificate of Deposits	308,407	308,407	-	-	-
Money Market Mutual Funds	1,038,098	1,038,098	-	-	-
ITFA - Highway Bonds					
Money market funds	166,783	166,783	-	-	-
State Office Building Commission					
Money market funds	183,912	183,912	-	-	-
Recreational Development Commission					
Repurchase agreements	936	936	-	-	-
Total	\$ 3,703,586	\$ 3,522,456	\$ 101,734	\$ 11,685	\$ 67,711

Custodial Credit Risk

Deposits – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2005, the balance of the State of Indiana's deposits was covered in full by the Federal Deposit Insurance Corporation (FDIC) or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

Investment Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the State of Indiana. None of the State's investments are exposed to custodial credit risk because they are held in the name of the State of Indiana. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) the custodian's failure to carry out the credit analysis, (iii) the custodian's failure to maintain proper collateral for each loan, or (iv) the failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

The Indiana Transportation Finance Authority Highway Bonds, an internal service fund, at June 30, 2005, had \$166.8 million in money market funds that were uninsured and unregistered with securities held by JP Morgan in the Authority's name.

The State Office Building Commission (SOBC), an internal service fund, at June 30, 2005, had \$7.0 million in unrestricted cash and equivalents and \$7.0

million in bank balance. The bank balance consists of a checking account that is swept into an interest bearing account each night. Of the bank balance, \$100,000 was covered by the FDIC.

The Recreational Development Commission, an internal service fund, at June 30, 2005, had \$2.0 million in certificates of deposit at two banks and \$0.94 million in Bank One repurchase agreements. The certificates of deposit are uncollateralized and insured by the FDIC up to \$100,000 at each bank. The securities of the repurchase agreements are fully collateralized by direct obligations or obligations guaranteed as to principal or interest by the United States and securities which are issued or guaranteed by corporations in which the United States has a direct or indirect interest.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Indiana Code 5-13-9-2 authorizes the State Treasurer to invest or reinvest in securities fully guaranteed and issued by (1) the United States Treasury (2) a federal agency (3) a federal instrumentality and (4) a federal government sponsored enterprise. The State Treasurer also may invest or reinvest in money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940. Such investment company or investment trust must be limited to direct obligations of the United States, a federal agency, a federal instrumentality, a federal government sponsored enterprise, or repurchase agreements fully collateralized by obligations described in number (1) through (4) above. The statute also states the securities of or interests in an investment company or investment trust must be rated as one of the following (1) AAA, or its equivalent, by Standard & Poor's Corporation or its successor (2) Aaa, or its equivalent, by Moody's Investors Service, Inc. or its successor.

The following is a summary of the Credit Risk Disclosure as of June 30, 2005:

Governmental Activities				
(Amounts are in thousands)				
	<u>S & P</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Fair Value</u>
Treasurer of State				
U.S. Agencies	AAA	Unavailable	Unavailable	1,872,886
Mortgage Backed				
Government Pass-Through	AAA	Unavailable	Unavailable	10,614
Corporate Pass-Through	AAA	Unavailable	Unavailable	1,780
Corporate Pass-Through	AA	Unavailable	Unavailable	149
Corporate Pass-Through	A	Unavailable	Unavailable	1,054
Corporate Pass-Through	Unrated	Unavailable	Unavailable	245
Collateralized Mortgage Obligations				
Govt CMO's	AAA	Unavailable	Unavailable	27,229
Corp CMO's	AAA	Unavailable	Unavailable	5,940
Corp CMO's	BBB	Unavailable	Unavailable	504
Corp CMO's	Unrated	Unavailable	Unavailable	4,264
Corporate Bonds	AAA	Unavailable	Unavailable	203
	AA	Unavailable	Unavailable	1,055
	A	Unavailable	Unavailable	5,923
	BBB	Unavailable	Unavailable	8,186
	BB	Unavailable	Unavailable	6,310
	Unrated	Unavailable	Unavailable	552
Corporate Asset Backed	AAA	Unavailable	Unavailable	12,212
	AA	Unavailable	Unavailable	176
	A	Unavailable	Unavailable	1,220
	BBB	Unavailable	Unavailable	931
	BB	Unavailable	Unavailable	177
	Unrated	Unavailable	Unavailable	336
Private Placements	AAA	Unavailable	Unavailable	1,603
	AA	Unavailable	Unavailable	489
	A	Unavailable	Unavailable	1,434
	BBB	Unavailable	Unavailable	1,503
	BB	Unavailable	Unavailable	103
	Unrated	Unavailable	Unavailable	1,516
Municipal Bonds	AAA	Unavailable	Unavailable	2,596
	Unrated	Unavailable	Unavailable	4,132
Yankee Bonds	A	Unavailable	Unavailable	245
	BBB	Unavailable	Unavailable	1,689
Supernational	A	Unavailable	Unavailable	1,166
Non-U.S. Fixed Income				
Foreign Governmental Bonds	BBB	Unavailable	Unavailable	361
Foreign Governmental Corp Debt	AAA	Unavailable	Unavailable	272
Foreign Governmental Corp Debt	AA	Unavailable	Unavailable	490
Foreign Governmental Corp Debt	A	Unavailable	Unavailable	1,550
Foreign Governmental Corp Debt	BBB	Unavailable	Unavailable	4,667
Foreign Governmental Corp Debt	Unrated	Unavailable	Unavailable	372
Certificate of Deposits	Unrated	Unavailable	Unavailable	308,407
Money Market Mutual Funds	AAA	Unavailable	Unavailable	1,038,098
State Office Building Commission				
Money Market Funds	AAA	AAA	Aaa	183,912
ITFA - Highway Revenue Bonds				
Money Market	Unrated	AAA	Aaa	166,783
Total Rated Investments				\$ 3,683,334

Concentration of Credit Risk

For an investment, concentration of credit risk is the risk of loss attributed to the magnitude of a State's investment in a single issuer. Indiana Code 5-13-10-3 states that the State Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than fifty percent (50%) of the combined capital, surplus, and undivided profits of that depository as determined by its last published statement of condition filed with the State Treasurer.

Investments in any one issuer that represent 5% or more of the total investments are (in thousands):

Fannie Mae:	15.37%	\$515,104
Freddie Mac:	18.18%	\$609,397
Federal Home Loan Bank:	20.64%	\$691,858

The Indiana Transportation Finance Authority Highway Bonds, an internal service fund, had 100% of its funds invested in JP Morgan money market fund.

The State Office Building Commission (SOBC), an internal service fund, places no limit on the amount it may invest in any one issuer. The Commission has 100% of its investments in the JP Morgan Prime Money Market Fund. The Recreational Development Commission, an internal service fund, had 5% of its investments in three securities. They are composed of Flagstar Bank certificate of deposit (58%), Farmers & Mechanic Savings and Loan certificate of deposit (10%) and Bank One repurchase agreements (32%).

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. 0.2% of the portfolio of the Treasurer of State, or \$7.7 million, is exposed to foreign currency risk.

Securities Lending Credit Risk

The Treasurer of State is authorized by statute (IC 5-13-10.5) to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository, having physical custody of securities, with a combined capital and surplus of at least \$10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an

amount or (2) a financial institution located either in or out of Indiana aggregating at any one time more than 50% of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Indiana Code 5-13-10.5-13 states that securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully insured by, or guaranteed by the United States, an agency of the United States government, a federal instrumentality, or a federal government sponsored enterprise; in excess of the total market value of the loaned securities. State statutes and policies permit the State to lend securities to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future.

The State's custodial banks manage the securities lending programs and receive securities or cash as collateral. The types of securities lent during the year may include U.S. Treasury and agency obligations, corporate bonds/notes, and foreign bonds. Collateral securities and cash are initially pledged at 102% of the market value of the securities lent. Generally, there are no restrictions on the amount of assets that can be lent at one time, except for the Public Employees' Retirement Fund and the State Teachers' Retirement Fund (discretely presented component units), which allow no more than 40% to be lent at one time.

The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. At year-end, the State had no credit risk exposure to borrowers because the amount the State owes the borrowers exceed the amounts the borrowers owe the State. Cash collateral is generally invested in securities of a longer term with the mismatch of maturities generally 0-15 days. The contracts with the State's custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

At year end, the State had no credit risk exposure to any borrowers because the amount the State owes the borrowers exceeds the amounts the borrowers owe the State.

b. Business-Type Activities

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2005:

Business-type Activities (Amounts are in thousands)					
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
State Revolving Fund					
Money market funds	\$ 571,622	\$ 571,622	\$ -	\$ -	\$ -
Government obligations	405	-	405	-	-
Guaranteed investment contracts and other	527,949	7,377	32,519	101,866	386,187
Malpractice Insurance Authority					
U.S. Treasuries	39,608	3,483	28,966	7,159	-
Total	\$ 1,139,584	\$ 582,482	\$ 61,890	\$ 109,025	\$ 386,187

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following is a summary of the Credit Risk Disclosure as of June 30, 2005:

Business-Type Activities (Amounts are in thousands)				
	S & P	Fitch	Moody's	Fair Value
State Revolving Fund				
Money market funds	AAA	AAA	Aaa	\$ 571,622
Guaranteed investment contracts	Unrated	Unrated	Unrated	527,949
U.S. Agency bonds	AAA	AAA	Aaa	405
Total Rated Investments				\$ 1,099,976

State Revolving Fund

Investment Policy – All cash and investments are held by, or in the name of, JP Morgan Trust Company, NA, as trustee under certain indentures of trusts (Trust Indentures) pertaining to the Programs and the bonds issued in connection with the Programs. Pursuant to the Programs' enabling statutes, the investments permitted by the Trust Indentures represent investment policy choices that make the generally

applicable provisions of Indiana Code 5-13 inapplicable to the Programs' investments.

Concentration of Credit Risk – The State Revolving Fund places no limit on the amount it may invest in any one issuer. The following table shows investments in issuers that represents 5% or more of the total investments at June 30, 2005:

<u>Issuer</u>	<u>Waste water</u>	<u>Drinking Water</u>
JP Morgan Prime Money Market Fund	54%	45%
AIG Matched Funding Corp. GIC	32%	31%
Salomon Reinvestment Co., Inc. GIC	9%	12%
Trinity Plus Funding Company, LLC GIC	5%	12%
TOTAL	100%	100%

Malpractice Insurance Authority

Investment Policy – All money appropriated by the State and any surplus of premiums over losses and expenses received by the Authority shall be invested by the commissioner within limitations set forth in IC 27-1-13.

Custodial Credit Risk – At June 30, 2005, the bank balance of the Authority's demand deposits was \$987,000. The bank balance was insured for \$100,000 by the Federal Deposit Insurance Corporation (FDIC). The bank balance of \$887,000 which was in excess of the FDIC insurance was uninsured and uncollateralized, and exposed to custodial credit risk. The Authority's investments are not exposed to custodial credit risk and reflect investment securities registered in the name of the Authority.

2. Major Discretely Presented Component Units

a. Proprietary Funds

Investment Policy

Indiana Bond Bank – The Bond Bank Act permits funds to be invested as provided by resolutions of the Board of Directors or trust indentures executed by the Bond Bank. In addition to authorizing investments in qualified entities, these resolutions and trust indentures have authorized the Bond Bank to invest in obligations of the U.S. Treasury, U.S. agencies and secured and unsecured investment agreements. The Bond Bank has also been authorized to invest in commercial paper, certificates of deposit, repurchase agreements, passbook savings and money market deposit accounts.

Indiana Housing Finance Authority – General policy: Indiana Code 5-20-1 authorizes the Authority to invest in obligations of the State, the United States, or their agencies or instrumentalities and such other obligors as may be permitted under the terms of any resolution authorizing the issuance of the Authority's obligation.

The Authority's Indenture policy states that the bond indentures permit investments in the direct obligations of, or obligations guaranteed by, the United States of America, obligations issued by certain agencies of the Federal government, and investments collateralized by those types of investments. At December 31, 2004, all investments held by the Authority were in compliance with the requirements of the Indentures.

Indiana Transportation Finance Authority – East-West Toll Road – The Trust Indentures authorize the Indiana Transportation Finance Authority (ITFA) to invest in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, commercial paper rated in the highest rating category, tax exempt securities, certificates of deposit, repurchase agreements secured by U.S. government securities, investment agreements with a qualified financial institution and any other obligation rated in one of the two highest rating categories by a rating agency.

The East-West Toll Road maintains various demand deposit accounts according to the terms of the Lease and Trust Indenture agreements. The carrying amount of cash was \$4.1 million at June 30, 2005, while the bank balances were \$5.0 million. All account balances at the bank were insured by the FDIC for \$100,000.

Indiana Transportation Finance Authority – Airport Facilities Bonds – Investment guidelines are dictated by Indiana statute and related trust indentures.

Indiana Board for Depositories – Indiana Code 5-13-9 authorizes the Board to invest in deposit accounts issued or offered by a designated depository; securities issued or securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

Indiana Code 5-13-9-2 authorizes the Board to invest or reinvest in securities fully guaranteed or issued by (1) the United States Treasury (2) a federal agency (3) a federal instrumentality and (4) a federal government sponsored enterprise. The Board also may invest or reinvest in money market mutual funds that are in the form of securities of or interests in an open-end, no-load, management-type investment company or investment trust registered under the provisions of the federal Investment Company Act of 1940. Such investment company or investment trust must be limited to direct obligations of the United States, a federal agency, a federal instrumentality, a federal government sponsored enterprise, or repurchase

agreements fully collateralized by obligations described in number (1) through (4) above. The statute also states the securities of or interests in an investment company or investment trust must be rated as one of the following (1) AAA, or its equivalent, by Standard & Poor's Corporation or its successor (2) Aaa, or its equivalent, by Moody's Investors Service, Inc. or its successor.

Indiana Code 5-13-10-3 also states that the Board may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than fifty percent (50%) of the combined capital, surplus, and undivided profits of that depository as determined by its last published statement of condition filed with the State Treasurer.

Indiana Code 5-13-10.5-10 authorizes the Board to invest or reinvest in obligations issued or guaranteed by the International Bank for Reconstruction and Redevelopment, the African Development Bank or the State of Israel.

Indiana Code 5-13-10.5-11 authorizes the investment in Indiana Bond Bank if the obligations are secured by tax anticipation time warrants or notes that are issued by a political subdivision with a maturity date not later than the end of the calendar year following year of issuance.

Indiana Secondary Market for Education Loans – At

June 30, 2005, the Indiana Secondary Market for Education Loans has few short term investments and has not adopted a formal investment policy.

State Lottery Commission – The Commission's investment policy establishes cash and investment guidelines for the deposit of funds. The Commission is authorized to make deposits in commercial banks and savings and loan institutions, obligations of the U.S. Treasury and U.S. Agencies, money market funds with portfolios of securities issued or guaranteed by the United States of America or agreements to repurchase these same obligations, repurchase agreements, and short-term commercial paper rated AAA or AA. The Lottery policy states that money that the Commission anticipates will be available for the payment of prizes on a deferred basis may be invested in direct U.S. Treasury obligations or insurance annuities. Investments are reported at fair value, except for insurance annuities, using quoted market prices. Insurance annuities are carried at cost. Changes in the fair value of the investments are recognized as revenue or expense in the operating statement.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The following is a summary of the Interest Rate Risk Disclosure as of June 30, 2005:

Major Discretely Presented Component Units					
(Amounts are in thousands)					
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
Indiana Bond Bank					
Guaranteed investment contracts and other	\$ 68,916	\$ 33,177	\$ 5,270	\$ 1,165	\$ 29,304
Indiana Housing Finance Authority					
U.S. Treasuries	13,778	248	242	3,222	10,066
U.S. Agencies	84,613	13,730	69,026	606	1,251
Guaranteed investment contracts and other	297,748	267,384	-	-	30,364
ITFA - Toll Road					
U.S. Treasuries	58,603	53,651	4,952	-	-
U.S. Agencies	14,789	14,789	-	-	-
Money market funds	11,311	11,311	-	-	-
Mutual bond fund	81,572	81,572	-	-	-
ITFA - Airport Facilities Bonds					
Money market funds	6,235	6,235	-	-	-
Board for Depositories					
U.S. Treasuries	26,731	17,330	9,401	-	-
U.S. Agencies	142,594	87,804	54,790	-	-
State of Indiana agency bond	4,802	-	-	4,802	-
State of Israel bond	5,000	-	5,000	-	-
Secondary Market for Education Loans					
Commercial paper	2,830	2,830	-	-	-
Guaranteed investment contracts and other	15,109	15,109	-	-	-
State Lottery Commission					
Repurchase agreements	425	425	-	-	-
Commercial paper	8,665	8,665	-	-	-
Money market funds	42,938	42,938	-	-	-
Insurance annuities	40,570	4,046	14,791	12,145	9,588
Government obligations	47,476	13,296	9,173	9,541	15,466
Total	\$ 974,705	\$ 674,540	\$ 172,645	\$ 31,481	\$ 96,039

Custodial Credit Risk

Indiana Housing Finance Authority – Of the Authority's \$430.0 million in investments, \$6.0 million includes bank balances that are not collateralized or insured but are held by the Authority's banks at December 31, 2004.

Indiana Transportation Finance Authority – Airport Facilities – Money market funds were uninsured and unregistered with securities held by a trustee in the Authority's name.

State Lottery Commission – The Commission has \$140.0 million of investments, which are not held by

the Commission.

Of this amount, \$47.0 million is invested in United States Treasury Strips and held by the United States Treasury Department; therefore, these investments are not considered to have custodial credit risk. The remaining \$93.0 million of investments are held by an outside counterparty.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following is a summary of the Credit Risk as of June 30, 2005:

Major Discretely Presented Component Units				
(Amounts are in thousands)				
	<u>S & P</u>	<u>Fitch</u>	<u>Moody's</u>	<u>Fair Value</u>
Indiana Bond Bank				
Guaranteed investment contracts	AAA	Unrated	Aaa	\$ 15,099
	Unrated	AAA	Aaa	34,678
	AAA	AA	Aaa	2,696
	AA	AA	Aaa	3,959
	Unrated	Unrated	Unrated	12,484
Indiana Housing Finance Authority				
U.S. Agency bonds	AAA	AAA	Aaa	84,613
Guaranteed investment contracts	Unrated	Unrated	Unrated	297,748
ITFA - Toll Road				
Money market	AAAm	Unrated	Aaa	11,311
Mutual funds	AAAm	Unrated	Aaa	81,572
ITFA - Airport Facilities				
Money market	Unrated	AAA	Aaa	6,235
Board for Depositories				
State of Israel bond	Unrated	Unrated	Unrated	5,000
U.S. agencies	AAA	AAA	Aaa	142,593
Secondary Market for Education Loans				
Commercial paper	A-1	Unrated	P-1	2,830
Guaranteed investment contracts	Unrated	Unrated	Unrated	15,109
State Lottery Commission				
U.S. Government Securities	Unrated	Unrated	Unrated	47,476
Commercial paper	A-1+	F-1+	P-1	7,075
	A-1+	Unrated	P-1	1,590
Repurchase agreements	Unrated	Unrated	Unrated	425
Money market funds	AAAm	AAA	Aaa	42,938
Insurance annuities	AA	AA+	Aa3	40,570
Total Rated Investments				<u>\$ 856,001</u>

Concentration of Credit Risk

Indiana Bond Bank – The Indiana Bond Bank places no limit on the amount that may be invested in any one issuer. The following table shows investments in issuers that represents 5% or more of the total investments at June 30, 2005:

<u>Issuer</u>	<u>Percent of total investments</u>
Ixis Funding Corp. GIC	50%
West LB GIC	17
Bayern LB GIC	14
Trinity Plus Funding GIC	8
MBIA, Inc. GIC	6

Indiana Housing Finance Authority – The Authority places no limit on the amount the Authority may invest in any one issuer. The following table shows investments in issuers that represents 5% or more of total investments at December 31, 2004:

<u>Issuer</u>	<u>Percent of total investments</u>
AIG Matched Funding Corp GIC	29.59%
XL Asset Funding Co. LLC GIC	12.78
Palas Capital Corp GIC	12.77
Grand Central GIC	11.13
FHLB	9.07
FNMA	5.58

Indiana Transportation Finance Authority – East-West Toll Road – The Toll Road places no limit on the amount that may be invested in any one issuer. The following investments each exceed 5% of the Toll Road's total investments.

<u>Issuer</u>	<u>Percent of total investments</u>
First American Government Obligation Fund	49.1%
Freddie Mac	8.9
Victoria Federal Money Market	6.8

Indiana Transportation Finance Authority – Airport Facilities Bonds – 100% of funds were invested in JP Morgan money market fund.

Indiana Secondary Market for Education Loans (ISM) – ISM places no limit on the amount the district may invest in any one issuer. More than 5% of its investments are in General Electric Capital Corporation commercial paper and IXIS guaranteed investments. These investments are 15.77% and 84.23%, respectively, of the ISM total investments.

State Lottery Commission – The Commission is not limited on the amount it can invest in one issuer. More than 5% of the Commission's investments are in United States Treasury Strips, JP Morgan Prime Money Market Fund, and AGEON Institutional Market annuities. These investments are 33.89%, 30.65%, and 28.96%, respectively, of the Commission's total investments.

Securities Lending Credit Risk

Indiana Board for Depositories – The Board is authorized by statute (IC 5-13-10.5) to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least \$10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body.

The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50% of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Indiana Code 5-13-10.5-13 states that securities may be lent only if the agreement under which the securities are lent is collateralized by (1) cash or (2) interest bearing obligations that are issued by, fully

insured by, or guaranteed by the United States, an agency of the United States government, a federal instrumentality, or a federal government sponsored enterprise; in excess of the total market value of the loaned securities.

Collateral securities and cash are initially pledged at 102% of the market value of the securities lent. The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. Cash collateral is generally invested in securities of a longer term with the mismatch of maturity's generally 0-15 days.

The contracts with the Board's custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

At year-end, the Board had no credit risk exposure to a borrowers because the amount the Board owes the borrowers exceeds the amounts the borrowers owe the Board.

Below are the investment types and values for securities lending transactions (in thousands):

Investment Type	Collateral Value	Market Value
U.S. Treasuries	\$25,060	\$24,765
U.S. agencies	183,462	180,175
Total	<u>\$208,522</u>	<u>\$204,940</u>

b. Pension Trust Fund – Primary Government

Deferred Compensation Plan

These monies are with a third party administrator.

State Police Pension Fund

Investment Policy – The Indiana State Police Pension Trust was established in 1937 to provide pension, death, survivor, and other benefits to present and former employees of the department and their beneficiaries who meet the statutory requirement for such benefits.

Indiana Code 10-1-2-2(c), established the prudent investor standard as the primary statutory provision governing the investment of the Trust's assets. IC 10-1-2-2 (c) reads as follows:

The trust fund may not be commingled with any other funds and shall be invested only in accordance with Indiana laws for the investment of trust funds, together

with such other investments as are specifically designated in the pension trust. Subject to the terms of the pension trust, the Trustee, with the approval of the Department and the Pension Advisory Board, may establish investment guidelines and limits on all types of investments (including, but not limited to, stocks and bonds) and take other action necessary to fulfill its duty as a fiduciary for the trust fund. However, the Trustee shall invest the trust fund assets with the same care, skill, prudence, and diligence, that a

prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The Trustee shall also diversify such investments in accordance with prudent investment standards.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The following table provides information on the credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities (in thousands):

Investment Type	Fair Value	S & P	Moody's	Fitch
U.S. Agencies	6,274	AAA	Unavailable	Unavailable
Mortgage Backed				
Government Pass-Through	62,570	AAA	Unavailable	Unavailable
Corporate Pass-Through	6,362	AAA	Unavailable	Unavailable
Corporate Pass-Through	137	Unrated	Unavailable	Unavailable
Collateralized Mortgage Obligations				
Govt CMO's	18,485	AAA	Unavailable	Unavailable
Corp CMO's	2,530	AAA	Unavailable	Unavailable
Corporate Bonds	3,836	AAA	Unavailable	Unavailable
	1,217	AA	Unavailable	Unavailable
	19,908	A	Unavailable	Unavailable
	7,896	BBB	Unavailable	Unavailable
	3,516	BB	Unavailable	Unavailable
	1,408	B	Unavailable	Unavailable
	262	CCC & Below	Unavailable	Unavailable
	1,588	Unrated	Unavailable	Unavailable
Corporate Asset Backed	13,745	AAA	Unavailable	Unavailable
	549	AA	Unavailable	Unavailable
	451	A	Unavailable	Unavailable
	2,050	BB	Unavailable	Unavailable
	74	B	Unavailable	Unavailable
	249	Unrated	Unavailable	Unavailable
Private Placements	793	AAA	Unavailable	Unavailable
	760	AA	Unavailable	Unavailable
	194	A	Unavailable	Unavailable
	2,015	BBB	Unavailable	Unavailable
	747	B	Unavailable	Unavailable
Municipal Bonds	109	Unrated	Unavailable	Unavailable
Yankee Bonds	159	BBB	Unavailable	Unavailable
	142	BB	Unavailable	Unavailable
Non-U.S. Fixed Income				
Foreign Governmental Bonds	1,857	AAA	Unavailable	Unavailable
Foreign Governmental Corp Debt	1,702	AAA	Unavailable	Unavailable
Foreign Governmental Corp Debt	461	A	Unavailable	Unavailable
Foreign Governmental Corp Debt	758	BBB	Unavailable	Unavailable
Foreign Governmental Corp Debt	143	BB	Unavailable	Unavailable
Money Market Mutual Funds	2,149	AAA	Unavailable	Unavailable
Total Rated Investments	165,096			

Custodial Credit Risk – The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party.

At June 30, 2005, the balance of the State Police Pension Trust deposits was covered in full by federal depository insurance or by the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the customer. None of the Indiana State Police Pension Trust's investments are exposed to custodial credit risk because they are held in the name of the Indiana State Police Pension Trust. Additionally, the Treasurer of State requires all custodians to indemnify the State against all out-of-pocket expenses or losses incurred as a result of (i) the custodian's operational failure, (ii) custodian's failure to carry out the credit analysis, (iii) custodian's failure to maintain proper collateral for each loan, or (iv) failure of an approved counterparty to comply with its obligations under the applicable securities lending agreement.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Indiana State Police Trust has eight different investments managers. The purchase of securities in any one nongovernmental corporation shall be limited to an initial cost of 5% of the market value of an investment manager's portfolio. Additionally, the

following limits are set to further limit credit exposure:

Large/Mid/Small Capitalization Equity Managers: equity holdings in any one company should not exceed 7.5%.

Non-US Equity Investment Managers: equity holdings in any one international company shall not exceed 7.5% of the total value of all investments in international equity securities.

Domestic Core Fixed/ Domestic Core Plus Managers: securities of any one issuer is limited to not more than 5% of the investment manager's portion of the portfolio. Securities backed by the full faith and credit of the United States Government or any of its instrumentalities shall not be subject to exposure limitations. Investments in high-yield and non-US debt securities should be limited to 20% high-yield and 20% non-U.S. debt with a combined exposure to those sectors not to exceed 30%.

Investments in any one issuer that represent 5% or more of the total investments are (in thousands):

Fannie Mae: 17.80% \$59,035
Freddie Mac: 5.07% \$16,800

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments.

The following table provides interest rate risk disclosure for the Indiana State Police Pension Fund (in thousands):

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less than 1	1 - 5	6- 10	More than 10
Fixed Income Securities					
U.S. Treasuries	\$ 12,830	\$ -	\$ 2,776	\$ 6,795	\$ 3,259
U.S. Agencies	6,274	6,274	-	-	-
Mortgage Backed					
Government Pass-Through	62,570	-	9,940	6,256	46,374
Corporate Pass-Through	6,499	-	2,049	231	4,219
Collateralized Mortgage Obligations					
Govt CMO's	18,485	-	828	2,965	14,692
Corp CMO's	2,530	-	-	-	2,530
Corporate Bonds	39,631	3,136	8,729	5,119	22,647
Corporate Asset Backed	17,119	955	2,398	292	13,474
Private Placements	4,509	-	2,757	385	1,367
Municipal Bonds	109	-	-	-	109
Yankee Bonds	300	-	159	-	141
Non-U.S. Fixed Income					
Foreign Governmental Bonds	1,857	-	-	1,635	222
Foreign Governmental Corp Debt	3,063	-	2,727	142	194
Money Market Mutual Funds	2,149	2,149	-	-	-
	<u>177,925</u>	<u>\$ 12,514</u>	<u>\$ 32,363</u>	<u>\$ 23,820</u>	<u>\$ 109,228</u>
Other Investments:					
Equities					
U.S.	96,566				
Non - U.S.	4,535				
Commingled Funds					
U.S. Equity	23,574				
Non- U.S. Equity	28,622				
Total Invested Assets	<u>\$ 331,222</u>				

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The table below breaks down the Trust's exposure to each foreign currency (in thousands):

Currency by Investment	Fixed Income	Equity
British Pound	\$1,614	\$462
Canadian Dollar	-	726
Euro Currency	1,702	-
Other	1,605	3,347

c. **Pension Trust Fund – Discrete Component Units**

Public Employees' Retirement System

Investment Policy – The Indiana General Assembly enacted the prudent investor standard to apply to the Board and govern all its investments. Thus, the primary governing statutory provision is that the Board must "invest its assets with the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." The Board is also required to diversify such investments in accordance with prudent investment standards.

Within these governing statutes, the Board has broad authority to invest the assets of the plans. The Board utilizes external investment managers each with specific mandates to implement the investment program. Depending on the mandate and the contractual agreement with the investment manager, investments may be managed in separate accounts, commingled account, mutual funds or other structure acceptable to the Board.

Currently, the Board has established the following asset allocation strategy for the investments held in the Consolidated Retirement Investment Fund (CRIF):

Asset Classes	Target Norm	Allowable Ranges
Equities – Domestic	45%	42% - 51%
Equities – International	11%	8% - 17%
Equities – Global	9%	6% - 15%
Fixed Income – Core	20%	17% - 26%
Fixed Income – TIPS	10%	7% - 16%
Alternatives	5%	2% - 11%

Investment in the Annuity Savings Accounts and Legislature's Defined Contribution plans are directed by the members in each respective plan and as such the asset allocation will differ from that of the CRIF. The Pension Relief Fund is invested to a target of 70% Fixed Income – Core and 30% Equities – Domestic. The Special Death Benefit Funds are 100% fixed income.

The following identifies investment types that are currently prohibited by the investment policy:

- Short sales of any kind
- Repurchase agreements that may create any kind of leverage in the portfolio (repurchase agreements as cash equivalents are permitted)
- Purchases of letter or restricted stock
- Buying or selling on the margin
- Purchases of futures and options, except where specifically noted in Specific Guidelines
- Purchases of derivative securities which have any of the following characteristics: leverage, indexed principal payment, or links to indexes representing investments, unless specifically approved by the Board or as delegated to the Executive Director
- Purchases of Interest Only or Principal Only collateralized mortgage obligations
- Purchases of Guaranteed Investment Contract (GIC's) or Bank Investment Contracts (BIC's)
- Any transactions giving rise to unrelated business taxable income (excluding current holdings)
- Any transaction that would be a "prohibited transaction" under the Internal Revenue Code Section 503
- Purchases of precious metals
- Purchases of commodities
- Purchases of inverse floaters

Deposit Risk – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution. Deposits held in the two demand deposit accounts are carried at cost and are insured up to \$100,000 each. Deposits in the demand accounts held in excess of \$100,000 are not collateralized. Deposits with the Treasurer of State are entirely insured. Deposits held with the custodian are collateralized with securities on loan that are held by the pledging financial institution.

Cash Deposits (in thousands)	Total	Bank One Benefits	National City Administration
Demand deposit account – carrying value	\$ 12,979	\$ 12,975	\$4
Demand deposit account – bank balance	58,549	58,446	103
Held with Treasurer of State	6,341		
Held with Custodian:			
Time Deposits – Cash collateral (nonnegotiable)	236,932		

Credit Risk – PERF's fixed income portfolio investment policy sets credit quality rating guidelines and benchmark indices for each of its sub asset classes and or as outlined in each portfolio manager contract. The quality rating of investments in fixed income securities as described by nationally recognized statistical rating organizations (Standard and Poors) at June 30, 2005, are as follows (in thousands):

Quality Rating	Fair Value	Percentage of Portfolio
AAA	\$2,869,063	73.56%
AA	352,578	9.04%
A	232,196	5.95%
A-1	69,048	1.77%
BBB	210,895	5.41%
BB	74,485	1.91%
B	23,677	0.61%
CCC	1,625	0.04%
Not rated and other	66,696	1.71%
Grand Total	<u>\$3,900,263</u>	<u>100.00%</u>

Approximately 63% of total investments reported are AAA rated US Treasury and Other Agencies (\$2.454 billion). Fixed income mutual funds were rated AA and are approximately 7%, or \$280 million, of total investments. The remaining 30% of total investment balance of credit risk is allocated to corporate debt, asset backed securities and mortgage obligations with various credit quality ratings.

Custodial Credit Risk – Custodial credit risk is the risk that the PERF will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counter party fails. Investment securities are exposed to risk if

the securities are uninsured, are not registered in the name of PERF and are held by either the counterparty of the counterparty's trust department of agent but not in PERF's name.

Per IC 5-10.3-5-4(a), fund investments must be held by banks or trust companies under custodial agreements. Per IC 5-10.3-5-5, all custodians must be domiciled in the United States and approved by the department of financial institutions to act in a fiduciary capacity and manage custodial accounts in Indiana.

There was no custodial credit risk for investments. As the securities collateral was provided as a part of an external investment pool no custodial credit risk exists.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. Under PERF's Investment Policy Statement, exposure to a single issuer, with the exception of the U.S. Government and it agencies, is generally limited to an initial cost of 5% of the market value of assets managed by each investment manager. For such investment managers, through capital appreciation, the exposure to a single issuer should not exceed 7.5% of market value of the assets managed by the manager.

For managers contracted to manage concentrated portfolios, exposure to the securities issued by a single issuer, with the exception of the U.S. Government and it agencies, is limited to 7.5% of the portfolio of the manager based upon initial cost and no more than 15% of the market value of the portfolio as a result of capital appreciation.

At June 30, 2005, there was no concentration of credit risks for the CRIF or separately managed fund portfolios.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. Duration is a measure of interest rate risk. The greater the duration of a bond or a portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration is an indicator of a bond price's sensitivity to a 100-basis point change in interest rates.

PERF's fixed income portfolio investment policy sets duration guidelines that are linked directly, or indirectly, to the benchmark indices for each of its sub asset classes and as outlined in each portfolio manager contract. Several sub asset classes require that duration of the portfolio may not vary more than 20% above or below the duration of the applicable benchmark index.

Duration information is provided below (in thousands):

Investment Type	Net Asset Fair Value	Duration
Short Term	\$ 156,920	0.2
Government Obligation	2,067,728	5.9
Mortgage Backed	743,444	2.3
Corporate Bonds	713,414	5.3
Mutual Funds	280,179	4.2
Asset Backed	97,270	2.2
Foreign Government and Corporate Securities	11,358	2.3
Total Net Asset Fair Value	\$4,070,313	
Portfolio Duration		4.7

All PERF investments are directly, or indirectly, sensitive to changes in the interest rate environment. Significant investment types that are considered highly sensitive have been identified in the derivatives financial instruments section.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. PERF's foreign currency exposure is focused in international and global equity holdings.

PERF's portfolio investment policy refers to foreign currency guidelines that are linked directly, or indirectly, to the benchmark indices for each sub asset class or as outlined in each portfolio manager contract. Certain fixed income portfolio sub asset classes allow for up to 20% investment in non-US dollar government and corporate securities. The Equity portfolio sub asset classes have specific guidelines for international equities and global equity investments. Certain sub asset classes do not allow "emerging" markets investments while some allow up to 20% of market value to be held in emerging markets. PERF has exposure to foreign currency fluctuation as follows (in thousands):

Currency	Fair Value	Percentage of Holdings
Euro	\$626,023	35.55%
Pound Sterling	393,523	22.34%
Japanese Yen	320,239	18.18%
Australian Dollar	109,575	6.22%
Swiss Franc	75,400	4.28%
Canadian	48,454	2.75%
Other	187,952	10.68%
Grand Total	\$1,761,166	100.00%

Securities Lending – Indiana Code 5-10.2-2-13(d) provides that the PERF Board of Trustees may authorize a custodian bank to enter into a securities lending program agreement under which securities held by the custodian on behalf of PERF may be loaned. The purpose of such a program is to provide additional revenue for PERF.

Statute requires that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower, and must be maintained at no less than the total market value of the loaned securities. The Board requires that collateral securities and cash be initially pledged at 102% of the market value of the securities lent. No more than 40% of the Fund's total assets may be lent at one time. The custodian bank and/or its securities lending subagents provide 100% indemnification to the Board and the Fund against borrower default, overnight market risk, and fails on the return of loaned securities. Securities received as collateral cannot be pledged or sold by the Board unless the borrower defaults. PERF retains the market value risk with respect to the investment of the cash collateral.

Cash collateral investments were subject to the investment guidelines specified by the Board. The Board policy includes that the maximum weighted average days to maturity may not exceed sixty. The average duration of the cash collateral portfolio was 24 days at June 30, 2005. The securities lending agents match the maturities of the investments of cash collateral for the securities loans with stated termination dates. Cash collateral received for open-ended loans that can be terminated on demand are invested with varying maturities.

Securities lent at year-end for cash collateral included loan values as follows (in millions):

Investment Type	Loan Value
Government Obligation	\$1,106
Corporate Bonds	78
Equities	910
Total Fair Value	\$2,094

At June 30, 2005, PERF had loaned US Treasury and Government Agency Obligations for securities collateral. The loan value was \$357.4 million which represented 102% coverage. The credit quality at June 30, 2005, also included under the credit risk section, was (in millions):

Securities Collateral Quality Rating	Fair Value	Percentage of Portfolio
AAA	\$357.4	100%

At fiscal year end, PERF has no credit risk exposure to borrowers because the amount PERF owes the borrowers exceeds the amount the borrowers owe the Fund.

The credit quality of the cash collateral at June 30, 2005 was (in millions):

Cash Collateral Quality Rating	Fair Value	Percentage of Portfolio
AAA	\$132	6.30%
AA	113	5.40%
A-1 and A-1+	1,771	84.58%
Not rated	78	3.72%
Grand Total	\$2,094	100%

The majority of AAA rated collateral was asset backed securities. The majority of AA rated collateral was Guaranteed Investment Contracts. The majority of A-1 and A-1+ collateral was medium term corporate bonds and time deposits.

Derivative Financial Instruments – PERF invested in derivative financial investments as authorized by Board policy. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or market index. PERF's investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, PERF's derivative investments included foreign currency forward

contracts, collateralized mortgage obligations (CMOs), treasury inflation protected securities (TIPS), and futures.

Foreign currency forward contracts are used to hedge against the currency risk in PERF's foreign stock and fixed income security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis.

At June 30, 2005 PERF's investments included the following currency forwards balances (in thousands):

Forward Currency Contract Receivables	\$319,093
Forward Currency Contract Payables	313,473

PERF's fixed income managers invest in CMOs to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2005, the carrying value of the PERF's CMO holdings totaled \$151.1 million.

TIPS are used by PERF's fixed income managers to provide a real return against inflation (as measured by the Consumer Price Index). In addition, PERF employs TIPS at the total fund level in order to utilize their diversification benefits. As of June 30, 2005, the carrying value of the System's TIPS holdings totaled \$1.1 billion.

PERF's investment managers use financial futures to replicate an underlying security or index they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, PERF's investment managers use futures contracts to adjust the portfolios risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. As the market value of the futures contract varies from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio. As of June 30, 2005, the only derivative positions held by PERF are equity index futures.

The PERF Board of Trustees had approved commitments to fund limited liability partnerships of \$115.8 million as of June 30, 2005. The fund has paid

out \$34.2 million of the commitment as of June 30, 2005. The funding period for the entire amount is July 2002 to February 2011.

State Teachers' Retirement Fund

Investment Policy - The Fund was established to provide retirement, disability, death, and termination benefits to present and former members of the Fund and their beneficiaries who meet the statutory requirements for such benefits. The Fund must be operated for the exclusive benefit of members and their beneficiaries, pursuant to Indiana law and the Internal Revenue Code. The Fund is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code, in order to provide the ensuing tax advantages to its members. In addition, the Fund is a trust, exempt from taxation under Section 501 of the Internal Revenue Code. The Fund is also governed by Indiana statutes and administrative rules (IC 5-10.2 and IC 21-6.1).

Whereas, the general assembly also believes that a prudent diversification of investments by public retirement funds is an essential element of a stringent investment standard for such funds and is critical for the future; and Whereas, the general assembly finds that numerous actuarial studies of retirement funds in Indiana and other states have demonstrated that, due to the long term nature of the investment made by public retirement funds, diversification of such investments in a responsible manner reduces risk, increases income, and improves security for such funds, while a lack of diversification results in reduced income and increased risk to the retirement funds, while creating a substantial additional burden for the taxpayers who ultimately bear the burden of providing the assets for such funds in the absence of sufficient investment income; and Whereas, the general assembly desires to pass a diversification rule patterned after the stringent federal law applicable to private plans, which will provide that the trustees of each fund must diversify the investments of their fund so as to minimize the risk of large losses. Thus, the primary governing statutory provision is that the Board must "invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims." The Board is also required to diversify such investments in accordance with prudent investment standards (IC 21-6.1-3-9).

It is the responsibility of the Board of Trustees to determine the allocation of assets among distinct capital markets in accordance with allowable legal limits.

At its April 27, 2004 meeting, the Board changed the strategic asset allocation to:

Domestic Equities	42%
International Equities	18%
Private Equity	5%
Real Estate	5%
Absolute Return	5%
Fixed Income	25%
	<u>100%</u>

At its October 26, 2004 meeting, the Board also adjusted the domestic equity manager structure to the following: 20% large cap passive; 30% large cap enhanced; 10% large cap value; 10% large cap growth; 10% midcap core; 5% midcap value; 5% midcap growth; 5% small cap value; 5% small cap growth.

At its November 30, 2004 meeting, the Board adjusted the international equity manager structure to the following: 40% enhanced index and 60% to active management.

Credit Risk - The credit risk of investments is the risk that the issuer will default and not meet their obligation. This credit risk is measured by the credit quality ratings issued by nationally recognized rating agencies. The Fund's investment policy limits each fixed income manager's purchase of below investment grade securities to 10% of the total market value of the manager's portfolio. The following table (in thousands of dollars) provides information on the credit ratings associated with the Fund's rated debt securities investments. Ratings below are presented using the Moody's rating scale. Debt securities unrated by Moody's are presented using Standard and Poor's ratings.

Quality Rating	Fair Value	Percentage of Portfolio
Aaa	\$2,131,330	66.81%
Aa1	12,823	0.40%
Aa2	16,566	0.52%
Aa3	46,233	1.45%
A1	181,108	5.68%
A2	62,636	1.96%
A3	191,549	6.00%
Baa1	90,726	2.84%
Baa2	141,842	4.45%
Baa3	99,767	3.13%
Ba1	50,747	1.59%
Ba2	34,159	1.07%
Ba3	16,173	0.51%
B1	10,851	0.34%
B2	3,243	0.10%

Quality Rating	Fair Value	Percentage of Portfolio
B3	19,502	0.61%
Caa1	22,218	0.70%
Caa2	14,344	0.45%
Ca	4,828	0.15%
P-1	15,242	0.48%
Not rated	24,478	0.76%
Total	<u>\$3,190,365</u>	<u>100.00%</u>

Custodial Credit Risk – Custodial credit risk for investments is the risk that in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured and unregistered and are either held by the counterparty's trust department or agent, but not in the name of the Fund. The deposits for the Fund at June 30, 2005 were \$16.5 million. Of this amount, \$16.4 million was exposed to custodial credit risk as uninsured and uncollateralized.

Concentration of Credit Risk – At June 30, 2005, TRF did not have investments in any one issuer, other than securities issued or guaranteed by the U.S. government that represented more than 5% of net investments.

Interest Rate Risk – The Fund uses the Lehman Brothers Aggregate Index (LBA) as the benchmark for

performance measurement of their fixed income managers. Teachers' Retirement Fund's investment policy states that each fixed income manager must manage their portfolio so that the duration is no less than 80% and no more than 120% of the duration of the index.

Foreign Currency Risk – As of June 30, 2005, 12.17% of the Fund's investments were in foreign currencies. In addition to the Fund's international equity managers, fixed income managers are allowed to invest up to 10% of their portfolio in international bonds. As of June 30, 2005, \$54.2 million, or 2.0% of the Fund's fixed income holdings, were held in international bonds. The table below breaks down the Fund's exposure to each foreign currency (in thousands):

Currency	Fair Value	Percentage of Holdings
Euro Currency Unit	\$335,014	4.70%
British Pound Sterling	170,908	2.40%
Japanese Yen	167,637	2.35%
Swiss Franc	44,455	0.62%
Canadian Dollar	37,496	0.53%
Hong Kong Dollar	34,203	0.48%
Australian Dollar	24,339	0.34%
South Korean Won	15,327	0.22%
Others	34,363	0.53%
Totals	<u>\$863,742</u>	<u>12.17%</u>

The following is a summary of the Interest Rate Risk Disclosure for Teachers' Retirement Funds as of June 30, 2005:

As of June 30, 2005 TRF had the following investments and maturities (Amounts are in thousands).					
Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
U.S. Treasuries	\$ 343,462	\$ 72,595	\$ 59,614	\$ 63,414	\$ 147,839
U.S. Agencies	158,394	77,248	63,887	13,706	3,553
Asset backed securities	71,133	66,563	4,570	-	-
Mortgage backed securities	1,356,721	176,318	1,123,954	56,449	-
Non-government backed C.M.O.s	24,454	14,970	9,484	-	-
Corporate bonds	1,001,210	254,809	447,521	208,345	90,535
Index linked government bonds	75,931	633	74,539	759	-
Municipal/provincial bonds	758	-	-	758	-
Total	<u>\$ 3,032,063</u>	<u>\$ 663,136</u>	<u>\$ 1,783,569</u>	<u>\$ 343,431</u>	<u>\$ 241,927</u>

Securities Lending – State statutes and Board of Trustees permit the Fund to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Fund's custodial bank manages the securities lending program and receives securities or cash as collateral. The Fund's custodial bank

maintains a list of broker-dealers that have passed their credit analysis and are eligible to borrow securities. In addition the Fund can have any borrower removed from this list by requesting the custodian not lend to this borrower. The collateral securities cannot be pledged or sold by the Fund unless the borrower defaults, but cash collateral may be invested by the

Fund. Collateral securities and cash are initially pledged at 102% of the market value of domestic securities lent and 105% on international securities lent. Collateral is marked to the market on a daily basis. No more than 40% of TRF's total assets may be lent at any one time. At year-end, TRF has no credit risk exposure to borrowers because the amount TRF owes the borrowers exceed the amounts the

borrowers owe TRF.

Approximately 25% of the securities loans can be terminated on demand either by the Fund or by the borrower, although generally the average term of these loans is one day. Cash collateral is generally invested in high quality short-term fixed income securities.

As of June 30, 2005 the Fund had the following securities on loan (in thousands):

<u>Security Type</u>	<u>Market Value of Loaned Securities Collateralized by Cash</u>	<u>Market Value of Loaned Securities Collateralized by Cash</u>	<u>Total Securities Loaned</u>
Global Equities	\$117,276	\$1,353	\$118,629
Global Gov't Fixed	2,385	-	2,385
U.S. Agencies	2,355	8,437	10,792
U.S. Corporate Fixed	169,281	15,587	184,868
U.S. Equities	412,226	5,318	417,544
U.S. Gov't Fixed	384,994	21,457	406,451
	<u>\$1,088,517</u>	<u>\$52,152</u>	<u>\$1,140,669</u>

Derivative Financial Instruments – TRF invested in derivative financial investments as authorized by Board policy. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or market index. TRF's investments in derivatives are not leveraged. In the case of an obligation to purchase (long a financial future or a call option), the full value of the obligation is held in cash or cash equivalents. For obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts, and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and senior management, and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. During the year, TRF's derivative investments included foreign currency forward contracts, collateralized mortgage obligations (CMOs), treasury inflation protected securities (TIPS), and futures.

Foreign currency forward contracts are used to hedge against the currency risk in TRF's foreign stock and fixed income security portfolios. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis. At June 30, 2005 TRF's investments included the following currency forwards balances (in thousands):

Forward Currency Contract	\$153,180
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TRF's fixed income managers invest in CMOs to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2005, the carrying value of the TRF's CMO holdings totaled \$158.7 million.

TIPS are used by TRF's fixed income managers to provide a real return against inflation (as measured by the Consumer Price Index). As of June 30, 2005, the carrying value of the System's TIPS holdings totaled \$75.2 million.

TRF's investment managers use financial futures to replicate an underlying security or index they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the

underlying security (arbitrage). Additionally, TRF's investment managers use futures contracts to adjust the portfolios risk exposure. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. Financial future positions are recorded with a corresponding offset, which results in a carrying value equal to zero. As the market value of

the futures contract varies from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The cash or securities to fulfill these obligations are held in the investment portfolio. As of June 30, 2005, the only derivative positions held by TRF are equity index futures.

B. Interfund Transactions

Interfund Loans

Interfund loans of \$5.3 million represents amounts owed by the State Office Building Commission Fund (SOBC), an internal service fund, to the General Fund. Out of this total, \$3.6 million is for the enhancement of Logansport State Hospital, \$1.5 million is for the Forensics Lab, and \$0.2 million is for the Hoosier Safe-T Project, to provide a statewide voice and data communications system.

Interfund loans of \$9.3 million represents amounts owed by the Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds Fund, an internal service fund, to the State Highway Department Fund, a special revenue fund, for construction expenses.

Interfund loans of \$2.4 million are composed of \$275,000 and \$2.1 million that represent amounts owed by the Alcohol Beverage Commission Research Fund and the Excise Tax Special Education Research

Fund, respectively, to the General Fund. The purpose of these loans was to cover a deficit cash balance in prior years.

Interfund loans of \$436,000 represents amounts owed by the Voluntary Compliance Research Fund to the Environmental Management Fund to cover a deficit cash balance in prior years. Both of these funds are nonmajor governmental funds.

As explained in Note III(B) above, temporary cash overdrafts in various funds are reported as interfund loans from the General Fund. As of June 30, 2005, the following funds had temporary cash overdrafts covered by loans from the General Fund: the Medicaid Assistance Fund, \$37.1 million, the Federal Food Stamp Program Fund \$1.7 million, and the Major Construction Army National Guard Fund, a non-major governmental fund, \$3.7 million.

The following is a summary of the Interfund Loans as of June 30, 2005:

Interfund Loans - Current				
	Loans To Other Funds		Loans From Other Funds	
	Loans To Governmental Funds	Loans To Proprietary Funds	Loans From Governmental Funds	Loans From Proprietary Funds
Governmental Funds				
General Fund	\$ 44,886	\$ 5,302	\$ -	\$ -
Medicaid Assistance Fund	-	-	37,095	-
State Highway Department	-	9,265	-	-
Nonmajor Governmental Funds	436	-	8,227	-
Total Governmental Funds	<u>45,322</u>	<u>14,567</u>	<u>45,322</u>	<u>-</u>
Proprietary Funds				
Internal Service Funds	-	-	14,567	-
Total Proprietary Funds	<u>-</u>	<u>-</u>	<u>14,567</u>	<u>-</u>
Total Interfund Loans	<u>\$ 45,322</u>	<u>\$ 14,567</u>	<u>\$ 59,889</u>	<u>\$ -</u>

Interfund Services Provided/Used

Interfund Services Provided of \$5.2 million represents amounts owed by various governmental funds to the Institutional Industries Fund and the Administrative

Services Revolving Funds, both internal service funds, for goods and services rendered.

The following is a schedule of Interfund Services Provided/Used as of June 30, 2005:

Interfund Services Provided/Used		
	Interfund Services Provided To Governmental Funds	Interfund Services Used By Governmental Funds
Governmental Funds		
General Fund	\$ -	\$ 1,862
Motor Vehicle Highway Fund	-	823
State Highway Department	-	148
Tobacco Settlement Fund	-	1
Nonmajor Governmental Funds	-	2,379
Total Governmental Funds	-	5,213
Proprietary Funds		
Internal Service Funds	5,213	-
Total Proprietary Funds	5,213	-
Total Interfund Services Provided/Used	\$ 5,213	\$ 5,213

Due From/Due Tos

Current - Interfund Balances of \$46.7 million represent the current amount due to the Indiana Bond Bank at June 30, 2005 for bonds issued on behalf of the State Revolving Fund. The Interfund Balance of \$27.1 million represents the accrued distribution amount from the State Lottery Commission to the Build Indiana Fund.

Non-current – Interfund Balances of \$101.7 million represent the total of payment delays from the General Fund to the seven discretely presented colleges and universities throughout the State of

Indiana. In June, 2004, the General Fund borrowed \$50.0 million, interest free, from the Indiana Board for Depositories, a discretely presented component unit. This money is due to be repaid, either from the General Fund prior to January 1, 2013, or by a budget request submitted to the 2013 session of the general assembly. These non-current Interfund Balances appear on the government-wide statements, but not the General Fund statements. Interfund Balances of \$1.4 billion represent the non-current amount due to the Indiana Bond Bank at June 30, 2005 for bonds issued on behalf of the State Revolving Fund.

The following are current and non-current schedules of Due From/Due Tos of Component Units, as of June 30, 2005:

Component Units - Current				
	Due From Primary Government	Due To Component Units	Due From Component Units	Due To Primary Government
Governmental Funds				
Build Indiana Fund	\$ -	\$ -	\$ 27,068	\$ -
Total Governmental Funds	-	-	27,068	-
Proprietary Funds				
State Revolving Fund	-	46,695	-	-
Total Proprietary Funds	-	46,695	-	-
Component Units				
State Lottery Commission	-	-	-	27,068
Indiana Bond Bank	46,695	-	-	-
Total Component Units	46,695	-	-	27,068
Total Due From/To	\$ 46,695	\$ 46,695	\$ 27,068	\$ 27,068

Component Units - Non-current				
	Due From Primary Government	Due To Component Units	Due From Component Units	Due To Primary Government
Governmental Funds				
General Fund	\$ -	\$ 151,702	\$ -	\$ -
Total Governmental Funds	-	151,702	-	-
Proprietary Funds				
State Revolving Fund	-	1,397,141	-	-
Total Proprietary Funds	-	1,397,141	-	-
Component Units				
Indiana University	39,813	-	-	-
Purdue University	27,992	-	-	-
Nonmajor Universities	33,897	-	-	-
Board for Depositories	50,000	-	-	-
Indiana Bond Bank	1,397,141	-	-	-
Total Component Units	1,548,843	-	-	-
Total Due From/To	\$ 1,548,843	\$ 1,548,843	\$ -	\$ -

Transfers of a member's reserves are made between the State Teachers' Retirement Fund (TRF) and the Public Employees' Retirement Fund (PERF) when a member has service at the time of retirement that is covered by both funds. Service covered by PERF and the related Annuity Savings Account balance will be used by TRF at the time of retirement in calculating the member's retirement benefit from TRF if the member was last employed in a TRF covered position. If the member was last employed in a PERF covered position, PERF will use the member's TRF service and Annuity Savings Account balance. At the

time the retirement is calculated TRF sets up a receivable from PERF (Due from component unit) for both the Annuity Savings Account balance and the calculated reserve for the service credit brought in from PERF. This receivable is included as a line item in the "Receivables" section of TRF's Statement of Fiduciary Net Assets. On the reverse side, TRF recognizes a payable (Due to component unit) in the Liabilities section of the Statement of Fiduciary Net Assets for TRF amounts used in calculating a PERF retiree's benefit. The reverse of the above holds true for PERF.

The following is a schedule of Due From/ Due Tos within Component Units, as of June 30, 2005:

Within Component Units		
	Due From Component Units	Due To Component Units
Discretely Presented Component Units Pension Trust:		
Pension Trust		
Public Employees' Retirement Fund	\$ 495	\$ -
State Teachers' Retirement Fund	-	495
Total Discretely Presented Component Units Pension Trust	495	495
Total Due From / To	\$ 495	\$ 495

Interfund Transfers

Major Governmental Funds

Transfers constitute the movement of money from the fund that receives the resources to the fund that utilizes them. These numerous transfers generally result from legislation passed by the Indiana General Assembly that directs how the transfers are made. In the case of the General Fund, many appropriations are made in the General Fund and then transferred during the year to the funds where these appropriations are used. Also in the case of the General Fund, various taxes and other revenues are collected in other funds and transferred to the General Fund. Following are the principal purposes of the State's interfund transfers:

General Fund – The General Fund had the following transfers in: \$1.63 billion was transferred in to reimburse the General Fund for the Property Tax Replacement Fund's share of tuition support per legislation. The General Fund's Motor Vehicle Excise Tax Replacement Account received \$236.2 million in transfers in from the Build Indiana Fund per legislation. \$151.8 million was transferred in from the Collection Fund. This represents individual and corporate income taxes collected for the General Fund. The General Fund also received \$126.4 million in transfers in from the Mental Institutions. \$96.4 million was transferred in from the Bureau of Motor Vehicles (BMV) Holding Account, representing motor vehicle sales tax collected for the General Fund. \$54.2 million was transferred in from the Tobacco Settlement Fund for health and welfare purposes. \$45.6 million was received to transfer the balance of the Financial Institutions Tax Fund not needed for distributions to counties. \$28.9 million was transferred

in from the Collection Fund. This represents sales taxes collected for the General Fund.

The General Fund received \$28.1 million for the disproportionate share hospital (DSH) program from the Medicaid Assistance Fund. \$22.0 million was transferred in from Family and Social Services Administration (FSSA) to the State Budget Agency Medicaid Reserve Contingency Fund. \$20.0 million was transferred from the Department of Education Escrow/Holding account to the State School Tuition Fund. \$17.8 million represents appropriation transfers made by the Budget Committee from the Title XX Fund to the General Fund for the Division of Disability, Aging and Rehabilitative Services (DDARS) – Residential Services for the Developmentally Disabled. \$16.3 million was transferred in from the FSSA Temporary Assistance for Needy Families (TANF) to the General Fund for DDARS – Residential Services for the Developmentally Disabled. \$7.3 million was transferred in from the Comfort and Welfare Fund to the General Fund for the Indiana Veterans Home. \$6.3 million was transferred in from the Institutional Industries Fund, an internal service fund. These transfers represent a transfer of funds to the General Fund per legislation at the end of the current fiscal year. \$4.7 million was transferred in from the Motor Vehicle Highway Fund for motor fuel tax and to reimburse the General Fund for the State Wide Cost Allocation Plan from dedicated funds. \$4.6 million was transferred in from the Administrative Services Fund, an internal service fund. \$2.5 million of this was required by the Budget Bill and \$2.1 million was from the General Fund PeopleSoft GMIS account for PeopleSoft implementation. \$4.4 million was transferred in from the Medicaid Certification Title XIX

to the State Board of Health (SBH) Medicare/Medicaid Certification.

The following were the transfers out from the General Fund: \$1.45 billion was transferred to the Medicaid Assistance Fund for Medicaid and Disability and the disproportionate share hospital (DSH) program. \$580.9 million in income taxes and \$52.2 million of BMV sales taxes were collected in the General Fund and transferred to the Property Tax Replacement Fund (PTRF). Another \$59.0 million was transferred to the PTRF to make up the shortfall of tuition support money per legislation.

\$99.5 million represents appropriation transfers out to the Higher Education Fund. \$99.0 million, \$97.9 million, and \$95.5 million of grant appropriations were transferred from the General Fund to the County Welfare Administration Fund, the Welfare-State and Federal Assistance Fund and the Mental Health Center Fund, respectively. \$59.2 million was transferred from the General Fund to the Motor Vehicle Highway Fund for State Police expenditures, pensions, and overtime. \$49.6 million and \$38.0 million represent appropriation transfers out to the Welfare-Medicaid Administration Fund and the Freedom of Choice Fund, respectively. Another \$38.8 million of grants were transferred to the Title XX Fund for aging, community service, and welfare. Grant and appropriations of \$37.4 million were transferred to the Welfare-Work Incentive Fund for the Family and Social Services Administration (FSSA) and TANF. \$22.5 million for administration and awards went to the 21st Century Scholars Fund. \$17.6 million of riverboat admissions tax was transferred to the Indiana Horse Racing Commission. \$15.3 million of grants were transferred to the Vocational Rehabilitation Fund for vocational rehabilitation and case management. \$13.3 million represents appropriation transfers to the Mental Health Services Block Grant Fund. \$13.0 million of grants were transferred to the Public Health Service Fund for auto emission testing, environmental management operation, and substance abuse treatment.

\$11.6 million and \$11.4 million represent transfers out to the Training 2000 Fund and appropriation and allotment transfers to the State Parks and Reservoirs Fund, respectively. \$10.1 million represents transfers out of sales and income taxes to the Collection Fund. \$9.1 million represents transfers out from the General Fund collection tax account to financial institutions account. There was \$9.0 million in transfer to the Fish and Wildlife Fund. \$8.0 million of appropriations was transferred to the Bank Tax Refunds Fund. Another \$8.0 million was transferred to the Public Defense Fund. \$7.7 million represents transfers to the Department of Corrections Title XX Fund. \$7.4 million

was transferred out to the Institutional Industries Fund, an internal service fund. These transfers represent a return of funds which were previously transferred in to the General Fund per legislation at the end of the prior fiscal year. \$7.1 million represents grant appropriation transfers for the Central Reimbursement Office (CRO) Program Administration and Revenue Recovery in the Title 4D Social Security Fund. \$5.8 million was transfers to the Employment and Training Fund. \$5.2 million represents transfers from the General Fund collection tax account to the Returned Check Revolving Fund.

Motor Vehicle Highway Fund – The Motor Vehicle Highway Fund received transfers in of \$115.4 million from the Bureau of Motor Vehicles Holding Account, representing vehicle licenses and fees. \$59.2 million was transferred in from the General Fund to reimburse the Motor Vehicle Fund for expenses it incurred for the State Police. \$43.6 million was transferred in from the International Registration Plan fund and represents Indiana's share of revenues collected under this plan. \$24.0 million was transferred in from the Motor Carrier Clearing Account, representing collections for the motor carrier surtax. \$8.1 million was transferred in from the Indiana State Trooper Costs Account, representing State trooper salaries, benefits, and overtime charged to riverboats. \$6.6 million was transferred in from the Motor Carrier Regulation Fund.

Transfers out included \$320.2 million to the State Highway Department Fund. By legislation the remainder of the amount in the Motor Vehicle Highway Fund, after distributions to cities, towns, and counties, and after other legislative required transfers, goes to the State Highway Department Fund. \$16.5 million was transferred out to the Road and Street Primary Highway Fund. \$16.0 million was transferred out to the Underground Petroleum Storage Tank (UPST) Excess Liability Fund. This represents fees, fines and penalties assessed to owners of underground storage tanks.

Medicaid Assistance Fund – The Medicaid Assistance Fund had a transfer in of \$1.45 billion from the General Fund for Medicaid and Disability and the disproportionate share hospital (DSH) program. There were also transfers in of \$90.9 million from the Mental Health Center Fund, \$62.5 million from the Medicaid Indigent Care Trust Fund, \$16.0 million from the Tobacco Settlement Fund for the Children's Health Insurance Program (CHIP Assistance), \$13.9 million from the Medical Assistance for Wards Fund, \$9.0 million from the Welfare Work Incentive Fund, and \$7.4 million from the Division of Family and Children Title 20 Fund.

Transfers out included \$54.6 million to the Mental Institutions Fund for Medicaid DSH providers and \$28.1 million to the General Fund for the DSH program.

Build Indiana Fund – The purpose of all Build Indiana Fund transfers is to follow legislation enacted by the Indiana General Assembly. The Build Indiana Fund received transfers in of the following: \$113.9 million from the Property Tax Replacement Fund, \$4.0 million from the Charity Gaming Enforcement Fund, and \$2.3 million from the Pari-Mutuel Taxes Account of the General Fund. All of these transfers in represent gambling tax revenues, with the Property Tax Replacement Fund transfer representing Riverboat Wagering Tax. The Build Indiana Fund had transfers out of \$236.2 million, all to the General Fund Motor Vehicle Excise Tax Replacement Account.

State Highway Department Fund – The State Highway Department had the following transfers in: \$320.2 million was transferred in from the Motor Vehicle Highway Fund. This is a legislative transfer as described above under the Motor Vehicle Highway Fund. \$147.4 million was transferred in from the Road and Street Primary Highway Fund. In addition, \$20.0 million was transferred in from the Gasoline and Special Fuel Tax Fund. This \$20.0 million represents the State Highway Department's share of gas and special fuel taxes collected in that fund.

Property Tax Replacement Fund – The Property Tax Replacement Fund (PTRF) received the following transfers in: \$580.9 million in income taxes and \$52.2 million of sales taxes were collected in the General Fund and transferred to the PTRF. \$59.0 million came from the General Fund to charge it with the shortfall of tuition support money per legislation. \$584.7 million in gaming taxes were collected in the State Gaming Fund and transferred to the PTRF. Another \$29.3 million in sales taxes were collected in the Tax Collection Fund and transferred to the PTRF.

The PTRF had the following transfers out: \$1.63 billion was transferred to reimburse the General Fund for the PTRF's share of tuition support per legislation.

\$113.9 million of wagering tax was transferred out to the Build Indiana Fund per legislation. \$10.0 million and \$2.3 million, representing riverboat admissions taxes, were transferred to the Indiana Horse Racing Commission and the State Fair Commission, respectively.

Tobacco Settlement Fund – The Tobacco Settlement Fund had the following major transfers out:

\$54.2 million was for health and welfare purposes in the General Fund. \$37.5 million of the transfers out was for the 21st Century Research and Technology Fund. Another \$16.0 million was for the Children's Health Insurance Program (CHIP Assistance) in the Public Welfare Medicaid Assistance Fund.

Proprietary Funds

Nonmajor Enterprise Funds

The Inns and Concessions Fund – This fund had transfers in of \$1.0 million, representing cash contributions from the Department of Natural Resources (DNR) in the General Fund for capital projects at the DNR Inns.

Internal Service Funds

The purpose of the Institutional Industries Fund transfers are to follow legislation enacted by the Indiana General Assembly. \$7.4 million was transferred in from the General Fund to the Institutional Industries Fund, an internal service fund. These transfers represent a return of funds which were previously transferred to the General Fund per legislation at the end of the prior fiscal year. \$6.3 million was transferred out at year end to the General Fund from the Institutional Industries Fund. These transfers represent a transfer of funds to the General Fund per legislation at the end of the current fiscal year.

\$1.0 million in Homeland Security grant funds were transferred in to Administrative Services, an internal service fund, from special revenue funds. This transfer of federal grant funds was for the purchase of enhanced security equipment for the Indiana Government Complex. \$2.5 million was transferred out from Administrative Services to the General Fund as required by the Budget Bill. \$2.1 million was transferred out to the General Fund (PeopleSoft GMIS account) for PeopleSoft implementation.

Fiduciary Funds (Discrete)

Transfers between the Public Employees' Retirement Fund (PERF) and the State Teachers' Retirement Fund (TRF) occur when employees in a position covered by one retirement fund move to a position covered by the other retirement fund. In that case, the service and account balance of the employee is transferred. During FY 2005, \$3.0 million was transferred from TRF to PERF and \$4.0 million was transferred from PERF to TRF.

A summary of interfund transfers for the year ended June 30, 2005 is as follows:

	<u>Transfers in</u>	<u>Transfers out</u>	<u>Net transfers</u>
Governmental Funds			
General Fund	\$ 2,548,487	\$ (3,100,077)	\$ (551,590)
Motor Vehicle Highway Fund	267,352	(363,861)	(96,509)
Medicaid Assistance	1,654,000	(83,342)	1,570,658
Build Indiana Fund	120,463	(236,287)	(115,824)
State Highway Department	490,323	(4,477)	485,846
Property Tax Replacement Fund	1,306,222	(1,765,310)	(459,088)
Tobacco Settlement Fund	77	(117,441)	(117,364)
Nonmajor Governmental Fund	1,596,525	(2,311,087)	(714,562)
Proprietary Funds			
Nonmajor Enterprise Funds	958	-	958
Internal Service Funds	8,373	(10,898)	(2,525)
Fiduciary Funds (Discrete)			
Public Employees' Retirement Fund	2,982	(3,972)	(990)
State Teachers' Retirement Fund	3,972	(2,982)	990
	<u>\$ 7,999,734</u>	<u>\$ (7,999,734)</u>	<u>\$ -</u>

C. Taxes Receivable/Tax Refunds Payable

Taxes Receivable/Tax Refunds Payable as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental Activities</u>			
	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Total Primary Government</u>
Income taxes	\$ 1,173,413	\$ -	\$ -	\$ 1,173,413
Sales taxes	335,081	344,459	-	679,540
Fuel taxes	-	105,218	-	105,218
Gaming taxes	134	1,715	-	1,849
Inheritance taxes	40,942	-	-	40,942
Alcohol and tobacco taxes	27,670	3,716	1,799	33,185
Insurance taxes	5,069	-	-	5,069
Financial institutions taxes	-	33,059	-	33,059
Other taxes	6,885	33,989	-	40,874
	<u>1,589,194</u>	<u>522,156</u>	<u>1,799</u>	<u>2,113,149</u>
Total taxes receivable	1,589,194	522,156	1,799	2,113,149
Less allowance for uncollectible accounts	(266,914)	(48,645)	(52)	(315,611)
Net taxes receivable	<u>\$ 1,322,280</u>	<u>\$ 473,511</u>	<u>\$ 1,747</u>	<u>\$ 1,797,538</u>
Tax refunds payable	<u>\$ 47,406</u>	<u>\$ 2,872</u>	<u>\$ -</u>	<u>\$ 50,278</u>

D. Capital Assets

Capital asset activity for governmental activities for the year ended June 30, 2005, was as follows:

Primary Government – Governmental Activities

	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 1,154,033	\$ 43,590	\$ (2,234)	\$ 1,195,389
Infrastructure	7,503,181	16,951	(3,760)	7,516,372
Construction in progress	427,603	182,587	(68,283)	541,907
Total capital assets, not being depreciated	9,084,817	243,128	(74,277)	9,253,668
Capital assets, being depreciated:				
Buildings and improvements	2,308,079	18,181	(11,474)	2,314,786
Furniture, machinery, and equipment	308,075	18,071	(18,799)	307,347
Infrastructure	14,235	-	-	14,235
Total capital assets, being depreciated	2,630,389	36,252	(30,273)	2,636,368
Less accumulated depreciation for:				
Buildings and improvements	(807,108)	(57,998)	7,012	(858,094)
Furniture, machinery, and equipment	(180,958)	(21,217)	19,312	(182,863)
Infrastructure	(12,099)	(306)	-	(12,405)
Total accumulated depreciation	(1,000,165)	(79,521)	26,324	(1,053,362)
Total capital assets being depreciated, net	1,630,224	(43,269)	(3,949)	1,583,006
Governmental activities capital assets, net	\$ 10,715,041	\$ 199,859	\$ (78,226)	\$ 10,836,674

Primary Government – Business-Type Activities

	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Business-type Activities:				
Capital assets, not being depreciated:				
Construction in progress	21	128	(149)	-
Total capital assets, not being depreciated	21	128	(149)	-
Capital assets, being depreciated:				
Buildings and improvements	21,945	373	(50)	22,268
Furniture, machinery, and equipment	703	49	-	752
Total capital assets, being depreciated	22,648	422	(50)	23,020
Less accumulated depreciation for:				
Buildings and improvements	(9,929)	(568)	50	(10,447)
Furniture, machinery, and equipment	(664)	(16)	-	(680)
Total accumulated depreciation	(10,593)	(584)	50	(11,127)
Total capital assets being depreciated, net	12,055	(162)	-	11,893
Business-type activities capital assets, net	\$ 12,076	\$ (34)	\$ (149)	\$ 11,893

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 28,829
Public safety	18,097
Health	2,319
Welfare	5,503
Conservation, culture and development	8,989
Education	1,207
Transportation	14,403
Other	174
	<hr/>
Total depreciation expense - governmental activities	<u><u>\$ 79,521</u></u>
 Business-type activities:	
Inns and Concessions	<hr/> 584
Total depreciation expense - business-type activities	<u><u>\$ 584</u></u>

Major Discretely Presented Component Units - Governmental and Proprietary

	Balance, July 1, As restated	Increases	Decreases	Balance, June 30
Capital Assets				
Capital assets, not being depreciated:				
Land	\$ 28,219	\$ 5	\$ -	\$ 28,224
Infrastructure	184,066	-	-	184,066
Construction in progress	11,283	22,993	-	34,276
Total capital assets, not being depreciated	<u>223,568</u>	<u>22,998</u>	<u>-</u>	<u>246,566</u>
Capital assets, being depreciated:				
Buildings and improvements	63,855	11	-	63,866
Furniture, machinery, and equipment	55,522	2,010	(8,038)	49,494
Total capital assets, being depreciated	<u>119,377</u>	<u>2,021</u>	<u>(8,038)</u>	<u>113,360</u>
Less accumulated depreciation for:				
Buildings and improvements	(38,828)	(1,216)	-	(40,044)
Furniture, machinery, and equipment	(40,746)	(3,830)	7,580	(36,996)
Total accumulated depreciation	<u>(79,574)</u>	<u>(5,046)</u>	<u>7,580</u>	<u>(77,040)</u>
Total capital assets being depreciated, net	<u>39,803</u>	<u>(3,025)</u>	<u>(458)</u>	<u>36,320</u>
Business-type activities capital assets, net	<u><u>\$ 263,371</u></u>	<u><u>\$ 19,973</u></u>	<u><u>\$ (458)</u></u>	<u><u>\$ 282,886</u></u>

E. Leases

Investment in Direct Financing Lease

The Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds Fund, an internal service fund, has a direct financing lease with the Department of Transportation. This Highway Revenue Bonds Fund lease is offset by revenue bonds payable and is eliminated in the fund financial statements. The revenue bonds payable are included in the

government-wide statements. The ITFA Airport Facilities Revenue Bonds Fund and the ITFA Aviation Technology Center Lease Bonds Fund, discretely presented component units, have investments in direct financing leases with the Indianapolis Airport Authority.

The future minimum lease receipts together with the amounts representing principal and interest for the Highway Revenue Bonds Fund are as follows:

<u>Year Ending, June 30</u>	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 23,280	\$ 70,689	\$ 93,969
2007	31,593	69,563	101,156
2008	32,996	67,978	100,974
2009	34,079	66,397	100,476
2010	36,113	64,463	100,576
2011-2015	208,702	287,422	496,124
2016-2020	259,665	225,426	485,091
2021-2025	328,092	148,895	476,987
2026-2030	327,556	46,980	374,536
Premium/(discount)	<u>(36,524)</u>		<u>(36,524)</u>
Total	<u>\$ 1,245,552</u>	<u>\$ 1,047,813</u>	<u>\$ 2,293,365</u>

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2005 and the assets acquired through capital leases are as follows:

Future minimum lease payments			
<u>Year ending June 30,</u>	<u>Operating leases</u>	<u>Capital leases Governmental Activities</u>	
2006	42,899	\$	3,788
2007	36,527		3,724
2008	30,563		3,627
2009	25,365		3,505
2010	20,462		2,906
2011-2015	45,465		6,969
2016-2020	13,397		3,800
2021-2025	2,536		3,914
2026-2030	399		4,036
2031-2035	<u>-</u>		<u>2,808</u>
Total minimum lease payments (excluding executory costs)	<u>\$ 217,613</u>		39,077
Less:			
Amount representing interest			<u>(16,285)</u>
Present value of future minimum lease payments		<u>\$ 22,792</u>	
Assets acquired through capital lease			
Land		\$	8,000
Building			42,394
Machinery and equipment			2,644
less accumulated depreciation			<u>(8,542)</u>
		<u>\$ 44,496</u>	

Operating Leases

The State leases building and office facilities and other equipment under non-cancelable operating leases. Total payments for such leases with aggregate payments of \$20,000 or more were \$43.3 million for the year ended June 30, 2005. A table of future minimum lease payments (excluding executory costs) is presented on the previous page.

Capital Leases Liabilities

The State has entered into various lease agreements with aggregate payments of \$20,000 or more to finance the acquisition of buildings, land and

equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the government-wide statements.

Discretely Presented Component Units

The Indiana Development Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total \$94,458.

F. Long-Term Obligations

Changes in long-term obligations for the primary government for the year ended June 30, 2005 were as follows:

Changes in Long-Term Obligations	Balance, July 1, as Restated	Increases	Decreases	Balance, June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Compensated absences	\$ 127,705	\$ 72,063	\$ (69,376)	\$ 130,392	\$ 77,178	\$ 53,214
Construction retention	1,882	1,245	(165)	2,962	-	2,962
Due to component unit	148,576	3,126	-	151,702	-	151,702
Net pension obligation	3,648	3,662	-	7,310	-	7,310
Revenue bonds/notes payable	2,311,356	439,215	(396,689)	2,353,882	57,637	2,296,245
Interest payable	33,549	2,239	-	35,788	23,480	12,308
Amount due federal government	295	-	-	295	-	295
Capital leases	24,954	1,626	(3,788)	22,792	2,486	20,306
	<u>\$ 2,651,965</u>	<u>\$ 523,176</u>	<u>\$ (470,018)</u>	<u>\$ 2,705,123</u>	<u>\$ 160,781</u>	<u>\$ 2,544,342</u>
Business-type activities:						
Compensated absences	\$ 300	\$ 202	\$ (177)	\$ 325	\$ 185	\$ 140
Claims liability	34,796	8,510	(2,798)	40,508	2,091	38,417
Amount due federal government	847	-	(847)	-	-	-
Due to component unit	1,485,652	1,387	(43,203)	1,443,836	46,695	1,397,141
	<u>\$ 1,521,595</u>	<u>\$ 10,099</u>	<u>\$ (47,025)</u>	<u>\$ 1,484,669</u>	<u>\$ 48,971</u>	<u>\$ 1,435,698</u>

Changes in long-term obligations for the major governmental and proprietary discretely presented component units for the year ended June 30, 2005 are as follows:

Changes in Long-Term Obligations	Balance, July 1, as Restated	Increases	Decreases	Balance, June 30	Amounts Due Within One Year	Amounts Due Thereafter
Business-type activities:						
Accrued prize liability	\$ 111,289	\$ 74,207	\$ (61,806)	\$ 123,690	\$ 55,459	\$ 68,231
Revenue bonds/notes payable	5,578,325	2,088,809	(2,014,278)	5,652,857	919,075	4,733,782
Other noncurrent liabilities	2,912	3,501	(85)	6,328	-	6,328
	<u>\$ 5,692,526</u>	<u>\$ 2,166,517</u>	<u>\$ (2,076,169)</u>	<u>\$ 5,782,875</u>	<u>\$ 974,534</u>	<u>\$ 4,808,341</u>

Long-term obligations of the governmental activities consists of revenue bond obligations of the Indiana Transportation Finance Authority Highway Revenue Bonds, the State Office Building Commission and Recreational Development Commission. Other long term obligations of governmental activities include capital lease obligations of governmental funds as presented in Note IV(E), net pension obligations for

the State Police Retirement Fund, the Prosecuting Attorney's Retirement Fund and Legislators' Retirement System as presented in Note V(H), construction retention, amount due the federal government and compensated absence obligations. The General Fund typically has been used to liquidate other long-term liabilities.

Long-term obligations of the business-type activities consists of claims liability of the Indiana Residual Malpractice Insurance Authority. The State Revolving Fund has obligations due the Indiana Bond Bank. These entities have been established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions.

Long-term obligations of the significant discretely presented component units consists of bonds issued or backed by the Indiana Housing Finance Authority and the Indiana Bond Bank. It also includes revenue bonds issued by the Indiana Transportation Finance Authority Airport Facilities and the Indiana Transportation Finance Authority Toll Road. Included also is prize liability accrued by the Indiana State Lottery Commission. As with the entities in the proprietary funds, these entities have the separate legal authority to finance certain essential governmental functions.

Revenue bonds are issued by entities established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions. Income from the acquired or constructed assets is used to pay debt service.

Governmental Activities

Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds – In 1988, the Transportation Finance Authority was granted the power to construct, acquire, reconstruct, improve and extend Indiana highways, bridges, streets and roads (other than the East-West Toll Road) from proceeds of highway revenue bonds issued by the Authority. The bonds are paid solely from and secured exclusively by the pledge of revenues from leases to the Indiana Department of Transportation of completed highway revenue bond projects. Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On November 15, 2000, ITFA issued Highway Revenue Bonds, Series 2000 in the par amount of \$269.5 million, which included \$21.9 million of refunding debt and \$247.6 million of new money debt. New refunding debt service requirements required a \$2.7 million increase in cash funds needed over the prior debt service requirements. The economic gain, or present value savings, on the refunding was

\$556,875. The primary purpose of the refunding bond issue was to level out the debt service requirements over time to increase the volume capacity for future bond issuances, as well as present value savings.

The \$247.6 million new money debt is being used for the payment of construction costs for the Series 2000 projects. The refunding debt was used to refund in advance of their stated maturity dates the Series 1990A and 1993A bonds maturing from June 1, 2006 to June 1, 2011. A portion of the proceeds, \$22.7 million was deposited in an escrow fund established pursuant to an Escrow Deposit Agreement between ITFA and the escrow trustee, Bank One Trust Company, N.A., and were used to purchase direct obligations of the United States of America. The initial cash deposit and interest earned thereon will pay when due the principal and interest for the Series 1990A Bonds and the Series 1993A Bonds. As of June 30, 2005, the amount of defeased debt still outstanding, but no longer considered long-term debt, was \$9.7 million with total Series 1990A capital appreciation bonds maturing at \$14.1 million and total Series 1993A capital appreciation bonds maturing at \$9.2 million.

In June 2003, the Authority issued \$150.1 million of Highway Bond anticipation Notes to provide interim financing for highway and bridge projects under the Highway Revenue Bond Program. The interest rate on the notes was 1.50% (the yield was .95%). The Authority paid the notes on September 25, 2003, using a portion of the proceeds of the Authority's Highway Revenue Bonds, Series 2003A.

In September 2003, the Authority issued Highway Revenue Bonds, Series 2003A in the amount of \$433.2 million, which mature serially through June 1, 2003 and include a term bond maturing on June 1, 2028. The bonds bear interest at rates 2.00% to 5.25%.

In June 2004, the Authority issued Highway Revenue Bonds, Series 2004A in the amount of \$320.6 million, which mature serially from June 1, 2017 through June 1, 2029, and include a term bond maturing on June 1, 2029. The bonds bear interest at rates from 4.625% to 5.25%.

In July 2004, the Authority issued Highway Revenue Bonds, Series 2004B in the amount of \$147.3 million, which mature serially from December 1, 2014 through December 1, 2022. The bonds bear interest at rates from 5.50% to 5.75%.

In July 2004, the Authority issued Highway Revenue Bonds, Series 2004C in the amount of \$148.1 million, which mature serially from December 1, 2009 through December 1, 2025. The bonds bear interest at rates

from 4.25% to 5.50%.

Indiana State Office Building Commission - The Indiana State Office Building Commission (SOBC) was created as a public body corporate and politic by the 1953 Acts of the Indiana General Assembly. The SOBC is authorized to construct and equip such facilities as the General Assembly may authorize through the issuance of revenue bonds. The SOBC has issued debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to finance acquisition costs (including design and construction costs) of the Indiana State Museum, Miami Correctional Facility, Pendleton Juvenile Correctional Facility, New Castle Correctional Facility and the Replacement Evansville State Hospital. The facilities are rented to the Indiana Department of Administration (DOA) under use and occupancy agreements.

Bonds issued by the SOBC are obligations only of the SOBC and are payable solely from and secured exclusively by the pledge of the income of the applicable facility financed. The SOBC has no taxing authority and rental payments by the DOA are subject to and dependent upon appropriations made for such purposes by the General Assembly.

The Hoosier Notes agreement provides interim financing for the acquisition and construction of the various facilities. On October 31, 2002, the Commission amended and restated the Hoosier Notes credit agreement dated February 18, 1998, which reduced the maximum advance of tax exempt commercial paper from \$200 million to \$150 million. Borrowings outstanding under this facility at June 30, 2005 were \$33.9 million, with interest computed at the LIBOR rate plus .25% or 70% of the Bank's prime lending rate. The interest rate in effect ranged from 1.15-2.47% at June 30, 2005. The credit facility expires on December 31, 2005.

In February 2004, the SOBC issued Facilities Revenue Refunding Bonds, Series 2004A which consist of \$255 thousand in serial bonds at interest rates ranging from 2.0% to 2.375% and \$45.9 million in term bonds at an interest rate of 5.25%. The 2004A Bonds were issued to partially refund the 1999A Series Bonds which were originally issued to finance the acquisition, design, construction, and equipping of Phase I of a medium security correctional facility, in the amount of \$47.9 million. The cash flow difference between the debt service on the 1999A Series Bonds and the new debt is \$1.8 million and the economic gain is \$1.7 million.

In February 2004, the SOBC issued Facilities Revenue Refunding Bonds, Series 2004B which

consist of \$61.9 million term bonds at an interest rate of 5.25%. The 2004B Bonds were issued to partially refund the 2002A Series Bonds which were originally issued to finance the remaining costs associated with the acquisition, design, construction, and equipping of the New Castle Correctional Facility, in the amount of \$65.7 million. The cash flow difference between the debt service on the 2002A Series Bonds and the new debt is \$2.9 million and the economic gain is \$2.7 million.

In February 2004, the SOBC issued Facilities Revenue Refunding Bonds, Series 2004C which consist of \$150 thousand in serial bonds at interest ranging from 2.875% to 3.25% and \$33.8 million in term bonds at an interest rate of 5.25%. The 2004C Bonds were issued to partially refund the 2003A Series Bonds which were originally issued to finance the remaining costs associated with the acquisition, design, construction, and equipping of the Indiana State Museum, in the amount of \$35.5 million. The cash flow difference between the debt service on the 2003A Series Bonds and the new debt is \$1.2 million and the economic gain is \$1.2 million.

In September 2004, the SOBC issued Facilities Revenue Bonds, Series 2004D which consist of \$26.0 million in serial bonds at interest rates ranging from 3.0% to 5.0% and \$7.8 million in term bonds at an interest rate of 5.0%. The 2004D Bonds were issued to fund the remaining costs associated with the acquisition, design, construction, and equipping of Logansport State Hospital.

In September 2004, the SOBC issued Facilities Revenue Bonds, Series 2004E which consist of \$57.0 million in serial bonds at interest rates ranging from 3.0% to 5.0%. The 2004E Bonds were issued to fund the remaining costs associated with the acquisition, design, construction, and equipping of Southwest Regional Treatment Center.

Pursuant to prior advance refundings, the Commission had \$524.1 million of defeased revenue bonds outstanding at June 30, 2005. In accordance with generally accepted accounting principles, these amounts are not included in the accounts of the Commission.

Recreational Development Commission - The Recreational Development Commission was created in 1973 pursuant to I.C. 14-14-1, for the purpose of providing funds for projects involving Department of Natural Resources' properties. The Commission consists of six members. The Treasurer of State, the Director of the Department of Natural Resources (DNR) and the Budget Director are members by virtue of their offices and the other three members are appointed by the Governor.

In 1987 and 1990, revenue bonds were issued to provide funds to renovate and equip Abe Martin Lodge and Turkey Run Inn and to construct cabins at Harmonie and Whitewater State Parks. Lease agreements with the Indiana Department of Natural Resources State Park Inns are used to repay the bond issues. The buildings and land will then be deeded back to the State of Indiana.

In 1994, the Commission executed three Escrow Deposit Agreements with bank trustees for the purpose of refunding revenue debentures issued in 1987 and 1990. A portion of the proceeds from the 1994A Revenue Bonds was used to fund the redemption.

On January 1, 1997, the Commission issued \$6.6 million of Series 1997 Revenue Bonds with interest rates from 4% to 5.35% to finance a golf course at Ft. Benjamin Harrison State Park.

On December 19, 2002, the Commission issued Revenue Bonds, Series 2002, with a face value of \$14.4 million to finance the cost of the development of park facilities at Prophetstown State Park, located near Battle Ground, Indiana, in Tippecanoe County. The project will include construction of picnic areas, campground sites, trails, a gatehouse and maintenance facilities. Proceeds from the bond issue were also used to refund, in advance of their stated

maturing dates, a portion of the 1994A Series Revenue Bonds.

On September 23, 2004, the Commission issued Revenue Bonds, Series 2004, with a face value of \$12.78 million to finance the replacement of the "Riverview" section of the Clifty Inn at Clifty Falls State Park, located near Madison, Indiana in Jefferson County. The project will include construction to connect the replacement section to the remainder of the Inn, replace and expand the conference center, redesign the kitchen and add recreational sites. Proceeds from the bond issue were also used to refund, in advance of their stated maturing dates, the remaining 1994A Series Revenue Bonds.

In 2004, the Commission advance refunded the remaining portion of the Series 1994A Revenue Bonds using a portion of the proceeds from the 2004 Revenue Bonds. The loss on advance refunding is being amortized over the remaining life of the old bonds.

At June 30, 2005, outstanding revenue bonds of \$7.5 million are considered to be defeased. The advance refunding was undertaken to reduce total debt service requirements. Cash funds needed for the new refunding debt decreased by \$1.2 million from that needed under the prior debt service requirements. The economic gain, or present value savings, on the refunding was \$1.1 million.

The following is a summary of long-term revenue bond debt outstanding at June 30, 2005.

Summary of Long-Term Obligations including current portion	Interest Rates Range	Maturity Range	Annual Payment Range	Amount
Governmental Activities				
Recreational Development Commission	2.125% - 5.25%	2006 - 2026	\$399 - 3,400	\$ 31,390
ITFA Highway Revenue Bonds	2.0% - 7.40%	2006 - 2029	\$25,805 - 97,460	1,384,616
Indiana State Office Building Commission	2.0% - 7.50%	2006 - 2028	\$10 - 11,625	937,876
				<u>\$ 2,353,882</u>
Business-type Activities:				
State Revolving Fund	1.74% - 6.0%	2006 - 2027	\$17,257 - 130,464	1,443,836
				<u>\$ 1,443,836</u>

Revenue bond debt service and accrued prize liability requirements to maturity including interest are as follows:

<u>Year Ending, June 30</u>	Governmental Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 57,637	\$ 119,583	\$ 177,220
2007	110,965	119,977	230,942
2008	82,527	118,095	200,622
2009	88,964	114,109	203,073
2010	91,865	107,614	199,479
2011-2015	529,530	464,815	994,345
2016-2020	553,461	363,570	917,031
2021-2025	491,650	181,973	673,623
2026-2030	383,099	48,493	431,592
Premium/(discount)	(35,816)	-	(35,816)
Total	<u>\$ 2,353,882</u>	<u>\$ 1,638,229</u>	<u>\$ 3,992,111</u>

<u>Year Ending, June 30</u>	Business-type Activities		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 46,695	\$ 69,730	\$ 116,425
2007	49,540	68,015	117,555
2008	53,020	66,052	119,072
2009	56,115	63,834	119,949
2010	60,705	61,321	122,026
2011-2015	367,615	257,320	624,935
2016-2020	440,945	152,359	593,304
2021-2025	305,270	42,797	348,067
2026-2030	28,515	2,265	30,780
Premium/(discount)	35,416	-	35,416
Total	<u>\$ 1,443,836</u>	<u>\$ 783,693</u>	<u>\$ 2,227,529</u>

Long-Term Debt of the Significant Discretely Presented Component Units is as follows:

Indiana Bond Bank – The Bond Bank is an instrumentality of the State of Indiana but is not a State agency and has no taxing power. It has separate corporate and sovereign capacity and is composed of the Treasurer of State (who serves as Chairman of the Board, ex officio), the Director of Department of Financial Institutions (who serves as director, ex-officio), and five directors appointed by the Governor.

The Bond Bank is authorized to buy and sell securities for the purpose of providing funds to Indiana qualified entities. To achieve its purpose, the Bond Bank has issued various bonds and notes payable. The bonds and notes payable were issued under indentures of trust. Each indenture requires the maintenance of debt service reserve accounts. Total outstanding debt as of June 30, 2005 was \$3.8 billion with interest rates ranging from 1.15% to 6.30%. Assets held in debt service reserve accounts are included in cash, cash

equivalents, and investments and amounted to \$17.2 million.

Special Program Bonds, Series 1985A and 1997B are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding principal balances of approximately \$38.7 million at June 30, 2005.

In January 2003, the Bond Bank issued its Special Program Bond, Series 2003B with a face amount of \$8.9 million at interest rates ranging from 2.0% to 5.0%.

In March 2003, the Bond Bank issued its Special Program Bond, Series 2003A with a face amount of \$40.4 million at interest rates ranging from 2.75% to 5.25%.

In June 2003, the Bond Bank issued School Severance Program Bonds, Series 4 with a face amount of \$50.0 million at interest rates ranging from 1.47% to 5.07%.

In June 2003, the Bond Bank issued its Special Program Bond, Series 2003C with a face amount of \$10.4 million at interest rates ranging from 2.0% to 5.0%.

In June 2003, the Bond Bank issued its Special Program Bond, Series 2003D with a face amount of \$27.5 million at interest rates ranging from 3.0% to 5.0%.

In July 2003, the Bond Bank issued Common School Fund Bonds, Series 2003A with a face amount of \$35.6 million at interest rates ranging from 2% to 5%. The proceeds were used to refund Common School Fund Program Bonds, Series 1993A which were outstanding in the amount of \$34.9 million. The cash flow difference between the debt service on the Common School Fund Program Bonds, Series 1993A and the new debt is \$2.0 million and the economic gain is \$2.0 million.

In July 2003, the Bond Bank issued Common School Fund Bonds, Series 2003B with a face amount of \$107.9 million at interest rates ranging from 2% to 5%.

In July 2003, the Bond Bank issued Reassessment Assistance Bonds, Series 2003B with a face amount of \$5.1 million and an interest rate of 2.0%. The Reassessment Assistance Bonds, Series 2003B were retired in their entirety in FY 2004.

In August 2003, the Bond Bank issued Reassessment Assistance Bonds, Series 2003 Midyear with a face amount of \$22.6 million and an interest rate of 2.0%. The Reassessment Assistance Bonds, Series 2003 Midyear were retired in their entirety in FY 2004.

In December 2003, the Bond Bank issued its Special Program Bonds, Series 2003E with a face amount of \$36.5 million at interest rates ranging from 2.0% to 5.0%.

In December 2003, the Bond Bank issued its Special Program Bonds, Series 2003F with a face amount of \$18.3 million at interest rates ranging from 2.0% to 4.75%. The proceeds were used to refund Special Program Bonds, Series 1993A and 1994B in the amounts of \$5.3 million and \$5.9 million, respectively. The cash flow difference between the debt service on the Special Program Bonds, Series 1993A and 1994B and the new debt is \$3.3 million and the economic gain is \$2.3 million.

In December 2003, the Bond Bank issued School Severance Program Bonds, Series 5A with a face amount of \$184.7 million at interest rates ranging from 1.41% to 5.82%.

In December 2003, the Bond Bank issued School Severance Program Bonds, Series 5B with a face amount of \$15.2 million and an interest rate of 5.05%.

In December 2003, the Bond Bank issued School Severance Program Bonds, Series 5C with a face amount of \$4.0 million and an interest rate of 5.15%.

In January 2004, the Bond Bank issued Advance Funding Program Notes, Series 2004A with a face amount of \$842.3 million and an interest rate of 2.0%.

In January 2004, the Bond Bank issued Advance Funding Program Notes, Series 2004 Interim with a face amount of \$196.6 million and an interest rate of 1.2%. The Advance Funding Program Notes, Series 2004 Interim were retired in their entirety in FY 2004.

In January 2004, the Bond Bank issued AF Year End Program Bonds, Series 2003 with a face amount of \$350 million and an interest rate of 1.7%. The AF Year End Program Bonds, Series 2003 were retired in their entirety in FY 2004.

In February 2004, the Bond Bank issued its Special Program Bonds, Series 2004A in the amount of \$17.2 million at interest rates ranging from 2.0% to 5.0%.

In February 2004, the Bond Bank issued its Special Program Notes, Series 2004A with a face amount of \$12.4 million and an interest rate of 2.0%.

In March 2004, the Bond Bank issued its Special Program Bonds, Series 2004B with a face amount of \$17.6 million at interest rates ranging from 2.0% to 5.0%. The proceeds were used to advance refund Special Program Bonds, Series 1997B which were outstanding in the amount of \$17.5 million. The cash flow difference between the debt service on the Special Program Bonds, Series 1997B and the new debt is \$4.4 million and the economic gain is \$2.7 million.

In April 2004, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2004A with a face amount of \$113.1 million at interest rates ranging from 1.74% to 3.98%. The proceeds were used to refund the State Revolving Fund Program Bonds, Series 1994A and 1995A (collectively referred to as the Refunded Bonds) in the amounts of \$44.7 million and \$65.0 million, respectively. The cash flow difference between the debt service on the refunded bonds and the new debt is \$28.3 million and the economic gain is \$15.7 million.

In April 2004, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2004B with a

face amount of \$200.0 million at interest rates ranging from 2.0% to 5.0%.

In June 2004, the Bond Bank issued its State Revolving Fund Program Bonds, Series 2004C with a face amount of \$200.0 million at interest rates ranging from 5.0% to 5.25%.

In June 2004, the Bond Bank issued its Special Program Bond, Series 2004C with a face amount of \$35.0 million at interest rates ranging from 2.94% to 5.52%.

In June 2004, the Bond Bank issued Advance Funding Program Notes, Series 2004A Midyear with a face amount of \$182.8 million and an interest rate of 2.5%.

In June 2004, the Bond Bank issued Advance Funding Program Notes, Series 2004B Midyear with a face amount of \$11.1 million and an interest rate of 2.7%.

In June 2004, the Bond Bank issued Year End Warrant Assistance Program Bonds, Series 2004 with a face amount of \$127.2 million and an interest rate of 1.7%.

In June 2004, the Bond Bank issued School Severance Program Bonds, Series 6A with a face amount of \$163.0 million at interest rates ranging from 2.42% to 6.24%.

In June 2004, the Bond Bank issued School Severance Program Bonds, Series 6B with a face amount of \$14.7 million and an interest rate of 5.79%.

In October 2004, the Bond Bank issued its School Severance Program Bonds, Series 7A with a face amount of \$107.7 million and interest rates ranging from 2.40% to 5.73%.

In October 2004, the Bond Bank issued its School Severance Program Bonds, Series 7B with a face amount of \$12.9 million and interest rates ranging from 3.03% to 5.30%.

In November 2004, the Bond Bank issued its Special Program Bonds, Series 2004D with a face amount of \$29.3 million at interest rates ranging from 2.00% to 5.00%.

In December 2004, the Bond Bank issued its School Severance Program Bonds, Series 8A with a face amount of \$136.9 million and interest rates ranging from 2.65% to 5.64%.

In December 2004, the Bond Bank issued its School Severance Program Bonds, Series 8B with a face

amount of \$70.5 million and interest rates ranging from 3.35% to 5.49%.

In December 2004, the Bond Bank issued its School Severance Program Bonds, Series 9 with a face amount of \$36.9 million and interest rates ranging from 2.68% to 5.53%.

In December 2004, the Bond Bank issued AF Year End Program Bonds, Series 2004 with a face amount of \$265.0 million and an interest rate of 3.50%. The AF Year End Program Bonds, Series 2004 were retired in their entirety in FY 2005.

In January 2005, the Bond Bank issued its Special Program Bonds, Series 2005A with a face amount of \$14.8 million at interest rates ranging from 2.25% to 4.50%. A portion of the proceeds from this issue were used to refund the Special Program Bonds Series 1995A which were outstanding in the amount of \$3.3 million. The cash flow difference between the debt service on the refunded bonds and the new debt is \$0.43 million and the economic gain is \$0.02 million.

In January 2005, the Bond Bank issued its Advance Funding Program Notes, Series 2005A with a face amount of \$537.1 million at interest rate of 3.25%.

In January 2005, the Bond Bank issued its Advance Funding Program Notes, Series 2005 Lake Midyear with a face amount of \$89.9 million at interest rate of 3.20%.

In January 2005, the Bond Bank issued its Advance Funding Program Notes, Series 2005 Interim with a face amount of \$196.0 million at interest rate of 1.90%. The Advance Funding Program Notes, Series 2005 Interim were retired in their entirety in FY 2005.

In May 2005, the Bond Bank issued its Advance Funding Program Notes, Series 2005 Midyear with a face amount of \$43.1 million at interest rate of 3.50%.

In May 2005, the Bond Bank issued its Advance Funding Program Notes, Series 2005 Midyear Interim with a face amount of \$4.7 million and an interest rate of 3.05%. The Advance Funding Program Notes, Series 2005 Midyear Interim were retired in their entirety in FY 2005.

In June 2005, the Bond Bank issued its Advance Funding Program Notes, Series 2005 Lake with a face amount of \$71.5 million at interest rates ranging from 2.79% to 2.84%.

In June 2005, the Bond Bank issued its Year End Warrant Program Assistance Program Notes, Series 2005 with a face amount of \$6.6 million and an interest rate of 3.50%.

Indiana Housing Finance Authority – In 1978, the Indiana Housing Finance Authority (the Authority) was granted the power to issue bonds for the purpose of financing residential housing for persons and families of low and moderate incomes. These bonds are special obligations of the authority and are payable solely from the revenues and assets pledged. Various series of bonds have been issued with an original amount of \$1.91 billion with interest rates ranging from 1.20% to 7.85%. The total outstanding debt associated with these bond issues as of December 31, 2004 was \$942 million.

The Authority has a line of credit of \$ 50.6 million which is due on June 30, 2005. Interest is due on the outstanding borrowings at a variable rate based on LIBOR (2.147% at December 31, 2004).

During 2004, the Single Family Mortgage Program Fund issued 2004 Bond Series with a face value of \$294.6 million and interest rates varying from 1.40% to 5.30%. The Single Family Mortgage Program Fund provides for the purchase of mortgage loans made to eligible borrowers for owner-occupied housing.

Indiana Transportation Finance Authority – East-West Toll Road – The Indiana Transportation Finance Authority (ITFA) is the successor to the Indiana Toll Finance Authority created in 1983 pursuant to IC 8-9.5. ITFA is a body both corporate and politic and, although separate from the State, the exercise by ITFA of its powers constitutes an essential government function. ITFA's duties consist of the construction, reconstruction, improvement, maintenance, repair and operation of all toll roads and bridges in the State. To exercise its duties, ITFA may issue bonds under statute.

Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of the revenues from the leases to the Indiana Department of Transportation of the projects financed out of the bond proceeds and the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of the any constitutional provision or limitation.

During September 1985, ITFA issued \$257 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1985 (Series 1985 Bonds), for the refunding of the outstanding portion of the \$259.5 million Indiana Toll Road Commission East-West Toll Road Revenue Bonds, 1980 Series (Series 1980 Bonds). The Series 1985 Bonds are secured by the renewable lease between the ITFA and Indiana Department of Transportation (INDOT).

The Series 1980 Bonds are not reported as a debt of ITFA since repayment of principal and interest will be from escrowed funds and earnings. At June 30, 2005, the principal amount of the Series 1980 Bonds outstanding, which have been defeased in substance, total \$108 million.

During October 1993, ITFA issued \$76.1 million of Indiana Transportation Finance Authority Taxable Toll Road Lease Refunding Bonds, Series 1993 (Series 1993 Bonds) to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of a portion of the outstanding Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1985. The Series 1993 Bonds are secured by the renewable lease between ITFA and INDOT.

As a result, the refunded portion of the Series 1985 Bonds are not reported as a debt of the ITFA since repayment of principal and interest will be from escrowed funds and earnings. The advance refunding of the Series 1985 Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$14.2 million. This difference is being charged to interest expense in the amount of \$1.2 million through the year 2005 using the straight-line method. Accordingly, \$1.2 million through the period ended June 30, 2004 has been reported in the accompanying financial statements as a deduction from bond payable. This advance refunding was undertaken to reduce total debt service payments over the next 11 years by \$9.6 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$7.1 million.

During October 1996, ITFA issued \$134.8 million of Indiana Transportation Finance Authority Toll Road Lease Revenue Refunding Bonds, Series 1996 (Series 1996 Bonds), to refund a portion of the Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1987. Proceeds from the sale of the Series 1996 Bonds were used to purchase assets placed in an irrevocable trust that will be used to pay principal and interest on the Series 1987 Bonds when due. The Series 1996 Bonds are secured by the renewable lease between ITFA and INDOT.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$15.5 million. The difference is being charged to interest expense in the amount of \$1.2 million for the year ended June 30, 2004, using the effective interest rate method over the life of the bond. Accordingly \$4.5 million through the

year ended June 30, 2004 has been reported in the accompanying financial statements as a deduction from bonds payable. This advance refunding was undertaken to reduce total debt service payments over the next 16 years by \$8.1 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$4.7 million.

At June 30, 2005, the ITFA was in compliance with all material requirements and restrictions contained in the Trust Indentures.

Indiana Transportation Finance Authority (ITFA) Airport Facilities Revenue Bonds – In 1991, the General Assembly authorized, under Indiana Code 8-21-12, to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds. Any bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon.

ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

In December 2004, the Transportation Finance Authority issued Airport Facilities Multi-Mode Lease Revenue and Revenue Refunding Bonds, Series 2004 in the par amount of \$204.5 million, which included \$199.4 million of refunding debt and \$5.1 million of new money debt at interest rates ranging from 2.50% to 4.35%. The refunded 1992A, 1995A, and 1996A series bonds are not reported as a debt of the Authority since payment of principal and interest are to be from escrowed funds and investment earnings. At June 30, 2005, the amount of defeased debt still outstanding, but no longer considered long-term debt, was \$158.0 million. As a result of the refunding, the Authority realized an economic gain or present value savings of \$5.7 million. The \$5.1 million new money debt is being used for the payment of construction costs for the Series 2004 projects. The refunding debt was used to refund in advance of their stated maturity dates the Series 1992A, 1995A and 1996A bonds maturing from November 2005 to November 2017. A portion of the proceeds, \$196.7 million, was deposited in an escrow fund established pursuant to an Escrow Deposit Agreement between ITFA and the escrow trustee, JP Morgan Trust Company, and were used to purchase direct obligations of the United States of America. The initial cash deposit and interest earned thereon will pay when due the principal and interest for the Series 1992A, 1995A and 1996A Bonds.

Indiana Secondary Market for Education Loans, Inc. (ISM) – ISM was established pursuant to Public Law No. 154 of the 1980 Indiana General Assembly. ISM is a not-for-profit corporation established to purchase student loans and provide enhanced access for Indiana residents pursuing education at post-secondary institutions. Taxable and tax-exempt bond and note financings are the primary sources of funding for ISM's programs. The State of Indiana has not appropriated any funds for the administration of ISM's programs. ISM administers programs for the purchase of loans guaranteed and reinsured by the United States Department of Education ("US DOED") under the Federal Family Education Loan Program ("FFELP").

ISM's bonds payable at June 30, 2005 include \$243.20 million and \$231.65 million of taxable and tax-exempt Auction Rate Certificates ("ARCs"), respectively. The ARCs mature on various dates between December 1, 2030 and 2044, respectively. Interest on the ARCs ranged from 1.28% to 3.40% during the year ended June 30, 2005, and is payable either at each auction, which occurs every 28 or 35 days as stipulated in the related ARC agreement, or semiannually.

In September 2004, ISM issued its Series 2004 Taxable bonds with a face amount of \$150 million and interest rates ranging from 1.95% to 3.40%.

In December 2004, ISM issued its Series 2004 Tax Exempt bonds with a face amount of \$73.1 million and interest rates ranging from 1.88% to 3.15%.

State Lottery Commission Accrued Prize Liability – Accrued prize liability includes an estimate of sold unclaimed scratch-off, pull-tab, and draw game winners and future television game show prizes awarded on shows committed to as of June 30, 2005, as well as installment amounts payable to past scratch-off, pull tab, draw game, and game show winners. Installment prizes are recorded at a discount based on interest rates that range from approximately 3% to 6% and reflect the interest earned by the investments held to fund the related liabilities. At June 30, 2005, the accrued prize liability was \$123.7 million including \$55.5 million in current prize liability and \$68.2 million in long-term prize liability.

G. Prior Period Adjustments and Reclassifications

For the fiscal year ended June 30, 2005, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana. These prior period adjustments and restatements are reflected in the beginning net assets in the government-wide statement of activities.

Prior Period Adjustments

In the fund statements for the Tobacco Settlement Fund and in the government-wide statements, there is an increase of \$13.8 million in fund balance/net assets for investment income which was reinvested, but not recognized as revenue in prior periods.

In the fund statements for the Unemployment Compensation Fund, an enterprise fund, and in the government-wide statements, there is a decrease of \$135.5 million in net assets. This restatement is necessary to properly reflect the balance of the Unemployment Trust Fund held with the federal government.

For the government-wide statements, there is an increase of \$27.6 million in net assets for capital assets. This was the result of several State agencies not capitalizing fixed assets acquired prior to June 30, 2004, by that date.

For the government-wide statements, there is an increase of \$7.3 million in net assets for capital assets. This was the result of the State not capitalizing a lease entered into prior to June 30, 2004, by that date. The State entered into a 35 year lease agreement in 1996 with the U.S. Department of Veterans Administration for the relocation of the Larue Carter Memorial Hospital.

For the government-wide statements, there is an increase of \$19.3 million in net assets for infrastructure. This was the result of the Indiana Department of Transportation (INDOT) not capitalizing certain right-of-way in process acquired prior to June 30, 2004, by that date.

Previous distributions from the State Lottery Commission to the state were handled in the CAFR as transfers because the Lottery was a blended

component unit. Accruals were not made on the transfers. Beginning this year the State Lottery Commission is being presented as a discretely presented component unit. The accrual on the distribution from last year becomes a prior period adjustment, causing beginning net assets to decrease by \$45.9 million.

Reclassification of Funds

The following reclassifications took place to more accurately reflect discrete presentation of component units under GAAP. The beginning net assets/fund balance reclassified follows the name of the fund in parentheses:

The Indiana Transportation Finance Authority (ITFA) Operating Fund (\$0.4 million) was reclassified from a special revenue fund to discretely presented component unit. The ITFA Interstate Bridge Fund (\$6.3 million) was reclassified from a capital projects fund to a discretely presented component unit. The ITFA Toll Road Fund (\$231.2 million), the ITFA Aviation Technology Bonds Fund (\$0.4 million), the ITFA Airport Facilities Bonds Fund (\$1.2 million), the ITFA Toll Bridges Fund (\$5.3 million) and the State Lottery Commission (\$50.7 million) were reclassified from enterprise funds to discretely presented component units.

One fund, the Indiana White River State Park Fund (\$115.5 million) reached the materiality level necessary to be included in the Comprehensive Annual Financial Report as a discretely presented component unit.

In the fund statements for the General Fund and in the government-wide statements, there is a decrease of \$99.2 million in fund balance/net assets for the Local Option Income Tax (LOIT). LOIT has been reclassified as an agency fund.

The following schedule reconciles June 30, 2004 net assets as previously reported, to beginning net assets, as restated:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>All Discretely Presented Component Units</u>
June 30, 2004, fund balance/retained earnings/net assets as reported	\$ 12,342,613	\$ 1,629,422	\$ 26,896,638
Prior period adjustments:			
Correction of errors	67,273	(135,408)	(43,045)
Reclassifications of funds	<u>(105,908)</u>	<u>(288,841)</u>	<u>411,019</u>
Balance July 1, 2004 as restated	<u>\$ 12,303,978</u>	<u>\$ 1,205,173</u>	<u>\$ 27,264,612</u>

V. OTHER INFORMATION

A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State records an expenditure for any loss as the liability is incurred or replacement items are purchased. The State does purchase commercial insurance related to certain employee health benefits. The State also purchases immaterial amounts of commercial insurance related to errors, omissions, and theft by employees. Settlements related to commercial insurance have not exceeded coverage in the past three fiscal years.

The State does have risk financing activity for the State employees' disability, certain State employees' health benefits, and certain health, disability and

death benefits for State Police officers. These are reported in three individual Internal Service Funds.

The State employees' disability program is financed partially by State employees through payroll withholdings and by the funds from which employees are paid. The employees' health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.)

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. The claim liabilities for the health insurance programs and the State Disability fund were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The surplus retained earnings in these funds are reserved for future catastrophic losses.

	State Police Health Insurance Fund	State Employees' Health Insurance Fund	State Disability Fund	Total
<u>2005</u>				
Unpaid Claims, July 1	\$ 2,345	\$ 20,427	\$ 5,154	\$ 27,926
Incurring Claims and Changes in Estimate	23,548	195,541	26,378	245,467
Claims Paid	(23,696)	(196,910)	(27,290)	(247,896)
Unpaid Claims, June 30	<u>\$ 2,197</u>	<u>\$ 19,058</u>	<u>\$ 4,242</u>	<u>\$ 25,497</u>
<u>2004</u>				
Unpaid Claims, July 1	\$ 1,707	\$ 14,754	\$ 5,097	\$ 21,558
Incurring Claims and Changes in Estimate	19,957	158,904	26,322	205,183
Claims Paid	(19,319)	(153,231)	(26,265)	(198,815)
Unpaid Claims, June 30	<u>\$ 2,345</u>	<u>\$ 20,427</u>	<u>\$ 5,154</u>	<u>\$ 27,926</u>

The trustees of Indiana University and Purdue University have chosen to assume a portion of the risk of loss for their respective institutions. Each university is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; health and other medical benefits provided to employees and their dependents. The universities individually handle these risks of loss through combinations of risk retention and commercial insurance. The amount of settlements did not exceed insurance coverage in the past three fiscal years. The universities' estimated liability for unpaid claims at June 30, 2005 was \$41.6 million.

B. Investment in Joint Venture

To finance the construction of the Indianapolis Maintenance Center (IMC) at Indianapolis International Airport, the Authority, a City of Indianapolis/Marion County-related financing authority (the City) and the Indianapolis Airport Authority (the Airport Authority) entered into a number of agreements, including leases, providing for the acquisition, construction, equipping and financing of the IMC (collectively, the Joint Venture).

Under the Joint Venture, the Authority's undivided interest as a tenant in the IMC is determined in proportion to the money it contributes to the acquisition, construction and equipping of the IMC from proceeds of the Authority's revenue bonds issued to finance the IMC. The City's and the Airport Authority's undivided interests are established in the same way, but by reference to the amount of money they contribute to the IMC from their revenue bond proceeds.

The Authority leases its undivided interest in the IMC to the Airport Authority. Upon termination of that lease, the Airport Authority will succeed to the Authority's interest in the Joint Venture. The Airport Authority is obligated to pay the Authority lease rentals sufficient to pay the principal of and interest on the revenue bonds and additional rentals sufficient to pay Authority expenses and ground rent obligations. The Airport Authority expects to pay the lease rentals through appropriations made by the General Assembly.

Financial Statements can be obtained from the Indiana Transportation Finance Authority as noted in Note I(A).

C. Subsequent Events

The Indiana Finance Authority ("Finance Authority")

was reconstituted pursuant to amendments made to Indiana Code 4-4-11 et seq., the WSRF Act, and the DWSRF pursuant to Public Law 235-2005 as enacted by the Indiana General Assembly in 2005 ("PL 235"). Pursuant to PL 235, the Finance Authority became the successor to the State, acting through the State Budget Agency and the Department of Environmental Management, for purposes of holding, administering, managing and financing the Programs and the SRF Funds. In addition, pursuant to PL 235, the Finance Authority also became the successor to the Indiana Bond Bank with respect to outstanding bonds issued by the Indiana Bond Bank related to the Programs. As a result of PL 235, the responsibility for the Programs has been consolidated into one entity, the Finance Authority. This entity merges five previously separate legal entities. They are: the Indiana Transportation Finance Authority, the Indiana Development Finance Authority, the Recreational Development Commission, the State Revolving Fund, and the Indiana State Office Building Commission. The Financial Statements reflect the legal and entity structure as in effect prior to the effective date of PL 235.

Subsequent to June 30, 2005, the Bond Bank has closed two new Special Program bond issues, Series 2005B (Town of Merrillville Redevelopment District) in the amount of \$8.9 million and Series 2005C (City of Carmel) in the amount of \$11.6million. In addition, the Board approved pool applications for Dawn Lakes Conservancy District in an amount not to exceed \$0.35 million and for Charlestown Municipal Sewage Works in an amount not to exceed \$4.0 million.

The Board of Directors of the Indiana Bond Bank has also authorized financing of equipment purchases amounting to \$1.83 million through the Hoosier Equipment Lease Program. Financing has occurred for \$0.83 million of the aforementioned amounts. Due to an immediate need on the part of the qualified entity, financing has also occurred for \$0.19 million of leases which have not yet been approved by the Board. However, those leases are expected to be ratified at the next meeting of the Board. The Bond Bank has not recorded these leases and their related obligations in their financial statements as the leases and related obligations have been assigned to a bank.

On June 30, 2005, all of the \$6.6 million of the Indiana Bond Bank's Year End Warrant Program Assistance Notes of 2005 has been repaid by qualified entities.

On April 19, 2005, Indiana Secondary Market for Education Loans' (ISM) Board of Directors authorized a revolving line of credit agreement (the "FIB LOC Agreement") with First Indiana Bank in the amount of \$25 million. The FIB LOC Agreement was executed on July 18, 2005, matures on June 30, 2006 and can be extended at the request of ISM and with the

consent of First Indiana Bank.

On July 19, 2005, ISM's Board of Directors authorized a revolving line of credit agreement (the "BOA LOC Agreement") with Bank of America in an amount up to \$300 million. The BOA LOC Agreement was executed on August 17, 2005 in the amount of \$100 million for a term of 12 months.

On September 2, 2005, ISM executed a lease termination agreement whereby ISM has the option to terminate its office space lease by delivering written notice at any time prior to January 31, 2006.

D. Contingencies and Commitments

Litigation

The State does not establish reserves for judgments or other legal or equitable claims. Judgments and other such claims must be paid from unappropriated fund balances. With respect to tort claims only, the State's liability is limited to \$300,000 for injury or death of one person in any one occurrence for causes of action arising prior to January 1, 2006, and to \$500,000 for causes of action arising on or after January 1, 2006, and \$5 million for injury to or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a total payment for liabilities of \$7.5 million to be made from the Tort Claim Fund during the next fiscal year because of the increase in the "Tort Cap" as mandated by the General Assembly to become effective on January 1, 2006. During the fiscal year ending June 30, 2005 the State paid \$6.1 million for settlements, judgments, claims and litigation expenses from the Tort Claim Fund.

The Indiana Attorney General's office is currently handling the following cases that could result in significant liabilities to the State:

In 1998, a group of State employees assigned to the Department of Natural Resources, filed a class action complaint for damages and injunctive relief in Marion County Superior Court against the State Personnel Department and its Director, the Department of Natural Resources and the State of Indiana claiming failure to comply with Public Law 70-1996, Section 3, in violation of plaintiffs' due process, statutory and contractual rights. Plaintiffs sought damages, back wages, injunctive relief, as well as attorneys' fees and costs, in excess of \$5 million. The class was certified and a trial date was set to commence. The State's Motion for Judgment on the Pleadings or for Summary Judgment was granted November 2003 dismissing all of Plaintiffs' and class claims with prejudice; Plaintiffs

to take nothing by way of their Complaint. Notice of Appeal was filed by Plaintiff, November 2003. Oral argument was heard on November 2004. Opinion was affirmed in part and reversed in part. Petition for Re-Hearing denied. Petition for Transfer filed and stayed pending settlement negotiations. Tentative class settlement reached conditioned on approval by AG, Governor and Court.

In 1998, a group of (1) pediatric dentists who are Medicaid providers, and (2) Medicaid recipients of those services, filed a class action lawsuit against the State and its agent, Electronic Data Systems (EDS). The suit challenged the Medicaid reimbursement system for pediatric dental services under both federal and state law. The Johnson County Superior Court granted summary judgment to the State on the federal law claims. The plaintiffs claim damages against the State in the amount of approximately \$17 million. Mediation was not successful. The state law claims were set for a court trial in August 2004 and continued by agreement of the parties in order for the motion for summary judgment of EDS to be responded to by the plaintiffs and ruled on by the court. A date for the bench trial has not been re-set.

In 2000, a gaming corporation operating one of the riverboat casinos challenged the interpretation the Department of Revenue (DOR) has placed on the Riverboat Gaming Tax, claiming that the tax is not an add-back for adjusted gross income tax and supplemental net income tax purposes. In April 2004 the tax court ruled in favor of DOR and found that the riverboat owed \$17 million in unpaid taxes from 1996 forward. The case could result in more than \$200 million in back taxes paid by Indiana's 10 casinos.

In 2000, a group of relatives, friends and attorneys of persons in the custody of the Department of Correction (DOC) who have received, accepted and paid for collect calls by persons in custody of DOC and anticipate continuing to do so, filed a class action against the Commissioner of the Indiana Department of Administration (IDOA). The amount of potential damages may be over \$5 million. This case was originally dismissed for lack of subject-matter jurisdiction; however, Plaintiffs appealed and the Court of Appeals reversed the dismissal and remanded the action to the trial court in *Alexander v. Cottey*, 801 N.E.2d 651 (Ind. Ct. App 2004). The trial court is instructed to determine if the State has the authority to enter into telephone contracts that reap a margin under the arrangements specified in the contract. If it determines it is not permissible, then the trial court must fashion a remedy. If it determines that the rate practice is permissible, it can determine the reasonableness of the rates or to the extent the profit margin is permissible or refer the matter to the IURC. To date a class has been certified but not notified, and

the Co-Defendant (Marion County Sheriff's Department) has filed their Motion for Summary Judgment. Because IDOA has entered into new telephone contracts for DOC the Court has allowed the Plaintiffs to amend their complaint to incorporate the new telephone contracts, since their allegations were based solely on the old contract before the case was appealed. Upon the Plaintiffs' filing their Amended Complaint, the State will file an answer and motion for summary judgment. This case is set for hearing regarding Motion for Summary Judgment on February 1, 2006.

In 2002, a corporation filed a breach of contract action against the Department of Environmental Management (IDEM) alleging that IDEM failed to abide by the terms of an agreed order relating to clean-up costs directed by the federal government. The plaintiff is seeking \$18 million in damages. On cross-motions for summary judgment the court held that IDEM's referral to EPA was a breach of contract, however, there is a conflict in facts as to whether EPA would have taken action anyway. The case was set for trial in December 2005.

In 2002, a large accounting firm hired to conduct the reassessment of real property in Lake County filed a breach of contract suit seeking \$12 million. Plaintiff asserts that the State approved invoices then failed to abide by contractual provision requiring it to take steps to force Lake County to pay invoices. Plaintiff's motion for Partial Summary Judgment was denied in April 2004. Bench trial was held August 31, 2005. Findings of Fact and Conclusions of Law were due in November 2005.

In 2003, a large business with facilities in East Chicago filed an amended complaint in Marion Superior Court that claims East Chicago improperly reduced the assessed value it reported from \$1.2 billion to \$750 million during the process of determining budgets, rates and levies for 2002. Plaintiff claims that various local and State officials did not follow proper procedures, which resulted in a tax rate that was higher than it should have been and an increased tax burden on the plaintiff. In addition, plaintiff claims that IC 6-1.1-17-0.5 permits an unconstitutional non-uniform and unequal rate of assessment. Claims are asserted against the County and State in unspecified amounts but could be several million dollars. The State filed motion to dismiss in March 2003. The same allegations by the same business were filed as a new case in Tax Court in April 2003. Oral Arguments were held in March 2004 and the matter is under advisement.

In March 2004, a class action complaint was filed challenging the constitutionality of the Indiana Unclaimed Property Act (Act). Pursuant to the Act,

the State is mandated to hold in its custody all unclaimed properties. The Act permits the State to hold the unclaimed property without paying interest to the owner when the property is claimed. The plaintiff alleges that the Act is facially unconstitutional under the United States and Indiana Constitutions because it permits the State to take private property, specifically, the interest and other increments accruing on abandoned property in the State's custody, without just compensation. The Act states that an owner is entitled to receive dividends, interest or other increments accruing on the property at or before delivery to the Attorney General. The Act does not require the payment of any earnings on property, including dividends on securities, to the owner after the property has been delivered to the Attorney General. The State's Motion to Dismiss was granted in April 2005 and the State has received notice of appeal. The State's exposure is approximately \$5 million.

In September 2004, Hamilton County filed a lawsuit against the Department of Revenue (DOR) claiming miscalculation of the county option income tax that DOR collects and remits on the County's behalf. The complaint claims that DOR has under remitted the tax to Hamilton County since 1999. The State is currently involved in pre-litigation discovery and everything is stayed until discovery is complete. If DOR fails to prevail, damages owed by the State could be approximately \$15 million.

In July 2005, Marion County challenged: 1) constitutionality of statute that requires the County to pay the State for expenses of juvenile incarceration (Marion County is approx. \$62 million in arrears); and 2) the misapplication of Ind. Code 11-10-2-3 and Ind. Code 4-24-7-2 in that Marion County has been assessed by the State for costs incurred by DOC institutions other than the Boys School and the Girls School. The court granted Joseph and Clark Counties Motion to Intervene as Plaintiffs. In September 2005 the Court conducted a hearing on Plaintiff's motion for preliminary injunction and entered its Order denying Plaintiff's motion for preliminary injunction. Intervening plaintiff, Clark County voluntarily dismissed out of the cause. In October 2005 Plaintiff filed its Notice of Appeal and its Motion For Stay. Motion was denied and an appeal is pending. The parties were ordered to file a Case Management Plan by December 15, 2005. The court projects resolution of motion and cross motion for summary judgment will be delayed until approximately June 2006.

The Recreational Development Commission has been named as a co-defendant in a lawsuit involving a personal injury claim at an Indiana State Park. While the results of such litigation cannot be predicted with certainty, management based upon the advice of

counsel, believes that the final outcome will not have a material adverse effect on the financial condition of the Commission.

The State intends to vigorously defend each of the foregoing suits or other claims.

Loss from reimbursement agreements

Qualitech – The Authority is a party to an Amended and Restated Reimbursement Agreement with Qualitech Steel Corporation (“Qualitech”), a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code, and Bank One, Indiana, NA (“Bank”), relating to Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 Qualitech Steel Corporation Project) (“Bonds”).

The Bank issued an irrevocable direct-pay letter of credit to further secure the Bonds. Such letter of credit replaced a letter of credit issued by another bank upon original issuance of the Bonds. As a result of Qualitech's payment default with respect to the Bonds, the Authority agreed with the Bank to use money lawfully available to the Authority, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding.

For FY 2005 and FY 2006, the Indiana General Assembly appropriated sufficient funds to the State Budget Agency for transfer to the Authority to pay Qualitech bond and related payments during those fiscal years. During the fiscal year ending June 30, 2005, the Authority recorded expenses for such bond and related payments of \$2.2 million. For the FY 2007 and FY 2008 budget period, it is anticipated that the General Assembly will appropriate sufficient funds to the State Budget Agency for transfer to the Authority for Qualitech bond and related payments, negating the need to access other Authority funds in either fiscal year.

If a default were declared, the Authority could be obligated to pay the principal of and interest on the Bonds. This would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the Bonds totaling \$23.6 million as of June 30, 2005. Debt service reserve fund aggregating \$3.6 million are currently held in trust and may be available to reduce the contingency obligation.

Heartland Steel – The Authority is a party to an Amended and Restated Reimbursement Agreement

with Heartland Steel, Inc. (“Heartland”), a Debtor-in-Possession by virtue of its filing a petition for relief under Chapter 11 of the United States Bankruptcy Code, and Bank One, Indiana, NA (“Bank”), relating to Indiana Development Finance Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (Heartland Steel, Inc. Project) (“Bonds”).

The Bank issued an irrevocable direct-pay letter of credit to further secure the Bonds. As a result of Heartland's payment default with respect to the Bonds, the Authority agreed with the Bank to use money lawfully available to the Authority, including money appropriated by the Indiana General Assembly, to make bond and related payments. As a result, the Bank agreed not to declare a default under the Amended and Restated Reimbursement Agreement, so that the Bonds remain outstanding. If a default were declared, the Authority could be obligated to pay the principal of and interest on the Bonds. This would result in recognition of losses in future years. The amount of this contingency is the outstanding principal amount of the Bonds, \$10.3 million, as of June 30, 2005. Current debt service reserve funds of \$2.2 million would be available to reduce the contingent obligation.

For FY 2005 and FY 2006, the General Assembly appropriated sufficient Guaranty funds to pay Heartland bond and related payments during those fiscal years. During the fiscal year ending June 30, 2005, the Authority recorded expenses for bond and related payments of \$0.9 million. For the FY 2007 and FY 2008 budget period, it is anticipated that the General Assembly will appropriate sufficient funds to the State Budget Agency for transfer to the Authority for Heartland bond and related payments, negating the need to access other Authority funds in either fiscal year.

Indiana Housing Finance Authority

Lease – The Indiana Housing Finance Authority had lease expense for 2004 and 2003 of \$364,743 and \$462,071, respectively. The Authority entered into a lease agreement for new office space in February 2003. The new lease requires payments of \$29,464 per month (\$353,568 per year) for the ten-year term of the lease. The move to the new office space was completed in April 2003.

Excess Investment Earnings – In order to preserve the exemption of federal and state income taxation on interest received by the bond holders, each bond issue of the Indiana Housing Finance Authority is subject to certain Internal Revenue Code (IRC) and U.S. Treasury Regulations. Under these regulations,

the Indiana Housing Finance Authority is required to pay the federal government any excess earnings as defined by IRC Section 148(f) on all nonpurpose investments if such investments were invested at a rate greater than the yield on the bond issue. The Indiana Housing Finance Authority's liability, included in accounts payable and other liabilities on the combined balance sheet, for excess earnings at December 31, follows:

	2004	2003
Single Family Program Fund	\$439,762	\$590,624
Working Families Program Fund	-	140,430
	\$439,762	\$731,054

HOME Investment Partnerships Program – The Indiana Housing Finance Authority (IHFA) serves as a Participating Jurisdiction (PJ) for the HOME Investment Partnerships Program (HOME) monies for the State of Indiana from the U.S. Department of Housing and Urban Development (HUD). The HOME funds are used to develop affordable housing. Properties assisted with HOME money have an affordability period for which they must remain targeted for low-income persons. The affordability period varies depending on the amount of assistance the property received. In 2003, HUD published a policy newsletter that would make PJ's responsible for repaying HOME monies invested in properties that failed to meet their affordability periods, regardless of the circumstances. This policy is contrary to IHFA's understanding of the HOME statute, regulations, and implementation to date. IHFA, along with other recipients of HOME Funds, has asked that HUD reconsider the repayment guidance. Nonetheless, IHFA is making programmatic adjustments to be prepared should HUD continue to pursue implementation of this new repayment policy. No liability has been recorded for any amounts that may be due HUD if the revised policy is enforced.

Indiana Transportation Finance Authority – East-West Toll Road

Contractual Commitments – At June 30, 2005, the Toll Road Project had contractual commitments for various Major Expense Fund projects, primarily the purchase of property, plan and equipment, aggregating to \$10 million.

Grants – The Toll Road Project periodically makes Transportation Improvement Fund (TIF) grants to various cities and counties adjoining the Toll Road Project. At June 30, 2005 and 2004, TIF grants to fund projects that have not yet been expended totaled

\$9.56 million.

Operations – The nature of the Toll Road Project's operations sometimes subjects the Toll Road Project to litigation resulting from concession activities and traffic accidents for which the General Counsel for the Toll Road Project is of the opinion that ultimate settlement of such claims in excess of insurance coverage will not result in a material adverse effect on the Toll Road Project's financial statements as of June 30, 2005.

Indiana Board for Depositories

During 1994, the Board entered into a bond purchase and pledge agreement with the Indiana Housing Finance Authority (IHFA) pursuant to Public Law 69-1989 and Indiana Code Sec. 5-13-12-7. The agreement provides that IHFA may borrow funds from the Board by issuing one or more bonds having an aggregate principal sum of not more than \$5.0 million. The bonds do not bear interest, pursuant to Indiana Code Sec. 5-20-4-9, and any outstanding principal will become due on March 12, 2013. As security for the bonds, the IHFA assigned to the Board a zero-coupon U.S. Treasury STRIP in the amount of \$5.0 million maturing February 15, 2013. At June 30, 2005, the Board held IHFA bonds of approximately \$5.0 million

During May 2001, Senate Enrolled Act 524 was signed into law. The act provides that the interest earned from the investment of the Public Deposit Insurance Fund (PDIF) be distributed to communities facing police and fire pension liabilities. On or before the last business day of November of each year, beginning in 2001 and ending in 2011, a computation shall be made based upon the interest earned on the PDIF during the fiscal year ending June 30 after deducting certain expenses for the Board for Depositories and the Indiana Education Savings Authority. The payment must be made by the PDIF to the pension distribution fund by the last business day of December. The amount that was transferred to the pension distribution fund during December 2004 and 2003 was \$3.8 million and \$6.9 million, respectively and the amount expected to be transferred during December 2005 is \$5.2 million.

Indiana Code section 5-13-12-7(d)(7) and (e) permits the Board to invest in guarantees of bonds or notes issued under Indiana Code section 5-1.5-4-1. During December 2003, the Board authorized a guarantee not to exceed \$20.0 million related to the Indiana Bond Bank Special Program Notes, Series 2004. The actual amount guaranteed by the Board as of June 30, 2005 and 2004 was zero and \$6.2 million, respectively.

Indiana State Lottery Commission

Multi-State Lottery Association – The Indiana State Lottery Commission is a member of the Multi-State Lottery Association ("MUSL"), and unincorporated government-benefit voluntary association created for the purpose of administering joint lottery games. MUSL currently consists of 29 state and district lotteries ("member lotteries") and operates the on-line Powerball game. Under separate agreements between MUSL and each lottery, the member lotteries sell tickets for this game and remits 50% of sales of prize winners or to MUSL for payment of prizes.

As a member of MUSL, the State Lottery Commission is required to contribute to various prize reserve funds held by MUSL. Accounts were established by MUSL as a contingency reserve to fund prizes in excess of the game prize structure and to protect all member lotteries and MUSL from any unforeseen liabilities. All funds remitted, and the related interest earned, will be returned to the Commission upon leaving MUSL, less any portion of unanticipated prize claims that may have been paid from the funds. As of June 30, 2005, the State Lottery Commission's balance of prize reserve funds was \$8.8 million.

Restricted assets also contain the Retailers Bonding Fund, with a balance as of June 30, 2005 of \$0.43 million.

Periodically, the State Lottery Commission is subject to certain legal and administrative actions that arise in the normal course of its operations. As of June 30, 2005, the State Lottery Commission's management believes that the ultimate outcome of any pending legal matters will not have a material adverse impact on the Commission's financial position.

Federal Grants

The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

E. Other Revenue

Other revenue represents revenue received which cannot accurately be included with any of the other revenue sources. In most cases, the amount of "other revenue" received by a fund is insignificant in comparison with total revenues received.

F. Economic Stabilization Fund

In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund").

This fund was established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature.

In general, monies are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are removed automatically from the Rainy Day Fund if API declines by more than 2%. All earnings from the investments of the Rainy Day Fund remain in the Rainy Day Fund. If the balance in the fund at the end of the fiscal year exceeds 7% of total general fund revenues for the same period, the excess is transferred from the Rainy Day Fund into the Property Tax Replacement Fund.

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The Rainy Day Fund cash and investment balance at the end of fiscal year 2005 was \$316.5 million. Total outstanding loans were \$17.6 million, resulting in total assets of \$334.1 million.

G. Deferred Compensation

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an

Indiana Incentive Match Plan which provides \$15 per pay period for each employee who contributes to the 457 Plan.

The State has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in pension and other employee benefit trust funds.

H. Employee Retirement Systems and Plans

The State of Indiana sponsors eight public employee retirement systems (PERS) that are included in the State's financial statements. They are reported and administered as described in Note I(A).

Summary of Significant Accounting Policies (Primary government and discretely presented component units)

The accrual basis is used for financial statement reporting purposes. Contributions are considered due when the related payroll is issued by the employer and recognized as a receivable at that time. Employers are not required to submit the contributions until the month following the end of the quarter. Legislators receive the majority of their pay in January and February and the contributions are transferred on the pay dates. Therefore, no receivable is established for the legislators' retirement funds. According to the plans' policies, benefits and refunds are due at time of payment. Therefore no liability has been accrued.

Investments of defined benefit plans are reported at fair value. Short-term investments are reported at cost, which approximates fair value.

Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The State sponsors the following defined benefit single-employer plans:

State Police Retirement Fund (Presented as a pension fund)

Plan Description The State Police Retirement Fund (SPRF) is a defined benefit, single-employer PERS, and is administered by the Treasurer of the State of Indiana as Trustee under a Pension Trust Agreement with the Indiana Department of State Police. Indiana Code 10-12-2-2 grants authority to the Department to

establish and operate an actuarially sound pension plan governed by a pension trust. It also authorizes the Department to make annual contributions as necessary to prevent any deterioration in the actuarial status of the trust.

Funding Policy The pre-1987 plan required employee contributions of five percent of the salary of a third-year trooper. The 1987 plan applies to all officers hired after June 30, 1987. In addition, State police officers hired prior to July 1, 1987 could elect to be covered under this plan if the employee filed an election with the trustee before July 1, 1989. Participants under the 1987 plan contribute six percent of their monthly salary.

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. Under the terms of the Trust Agreement, in the event the Department fails to make the minimum contribution for five successive years, the Trust shall terminate and the fund shall be liquidated. The unfunded actuarial accrued liability is funded over a forty-year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The funding policy for normal cost and unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

Excise Police and Conservation Enforcement Officers' Retirement Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Excise Police and Conservation Enforcement Officers' Retirement Plan (ECRP) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for employees of the Indiana Department of Natural Resources and Indiana Alcohol and Tobacco Commission who are engaged exclusively in the performance of law enforcement duties.

The Excise Police and Conservation Enforcement Officers' Retirement Plan provides retirement, disability, and survivor benefits. Indiana Code 5-10-5.5 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Members are required by statute to contribute three percent of the first \$8,500 of annual salary to the Plan. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially finance the coverage; the current rate is 18.3% of covered payroll.

The funding policy for employer contributions of the Excise Police and Conservation Enforcement Officers' Retirement Plan provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability for thirty years, and prevent the State's unfunded accrued liability from increasing.

Prosecuting Attorneys' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The Prosecuting Attorneys' Retirement Fund (PARF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The Prosecuting Attorneys' Retirement Fund provides retirement, disability retirement, and survivor benefits for individuals who serve as a prosecuting attorney or chief deputy prosecuting attorney on or after January 1, 1990.

These individuals are paid from the General Fund of the State of Indiana. Indiana Code 33-14-9 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Contributions made by or on the behalf of members are not actuarially determined but are set by statute at six percent (6%) of wages. The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendations of an actuary, is to be appropriated from the State's General Fund.

Legislators' Retirement System – Legislators' Defined Benefit Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Legislators' Defined Benefit Plan (IC 2-3.5-4), a defined benefit single-employer PERS, applies to each member of the General Assembly who was serving on April 30, 1989 and files

an election under IC 2-3.5-3-1(b). The Legislators' Defined Benefit Plan provides retirement, disability and survivor benefits. The plan is administered by the Board of Trustees of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy The amount required by the funding policy to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the State's General Fund.

Judges' Retirement System (Presented as part of PERF – a discretely presented component unit)

Plan Description The Judges' Retirement System (JRS) is a defined benefit single-employer Public Employee Retirement System administered by the Board of Trustees of the Public Employees' Retirement Fund. The Judges' Retirement System provides retirement, disability retirement, and survivor benefits. Coverage is for any person who has served, is serving or shall serve as a regular judge of any of the following courts: Supreme Court of the State of Indiana; Circuit Court of any Judicial Circuit; Indiana Tax Court; County Courts including Circuit, Superior, Criminal, Probate, Juvenile, Municipal and County Court. IC 33-38-8 applies to judges beginning service after August 31, 1985. Indiana Code 33-38-6 and -7 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Member contributions are established by statute at six percent (6%) of total statutory compensation. However, no contribution is required and no such amounts shall be paid on behalf of any participant for more than twenty-two years.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State General Fund. Indiana Code 33-38-6-7 provides that this appropriation only include sufficient funds to cover the aggregate liability of the Fund for benefits to the end of the biennium, on an actuarially funded basis. In addition to the General Fund

appropriations, the statutes provide for remittance of docket fees and court fees. These are considered employer contributions.

The State sponsors the following defined benefit agent multiple-employer plan:

Public Employees' Retirement Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The Public Employees' Retirement Fund (PERF) is a defined benefit agent multiple-employer plan administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 5-10.2 and 5-10.3 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162. At June 30, 2005, the number of participating political subdivisions was 1,132.

Funding Policy The State of Indiana and any political

subdivision that elects to participate in the PERF fund is obligated by statute to make contributions to the plan. The required employer contributions are determined by the Board of Trustees based on actuarial investigation and valuation. PERF funding policy provides for periodic employer contributions at actuarially determined rates, that, expressed as percentage of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost), administrative expenses, and anticipated increase in the unfunded actuarial accrued liability for the next fiscal year. In addition, employers must remit quarterly payment of the amortization of the initial prior service cost. The amortization period is forty years for those employers whose effective date of participation was before 1997. The amortization period for employers joining thereafter will be reduced 1 year per year until 2007 when it will be leveled at 30 years.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. These contributions are credited to the member's annuity savings account that funds the annuity portion of the retirement benefit.

The State is required to contribute for State employees at an actuarially determined rate; the current rate is 4.6% of covered payroll.

The Annual Pension Cost and Net Pension Obligations, the significant actuarial assumptions, and the historical trend information of the single and agent multiple employer defined benefit plans are as follows:

(amounts expressed in thousands)	Primary Government	Discretely Presented Component Unit					
	SPRF	PERF -State	PERF-Municipal	ECRF	JRS	PARF	LRS
Annual Pension Cost and Net Pension Obligation (Asset)							
Annual required contribution	\$ 12,070.1	\$ 54,579.0	\$ 114,399.8	\$ 2,190.3	\$ 10,488.1	\$ 144.2	\$ 95.4
Interest on net pension obligation	124.2	(3,463.0)	(7,707.1)	(23.4)	(661.4)	132.0	3.8
Adjustment to annual required contribution	(139.1)	3,947.0	8,782.9	24.9	753.7	(140.3)	(4.8)
Annual pension cost	12,055.2	55,063.0	115,475.6	2,191.8	10,580.4	136.0	94.4
Contributions made	(7,543.6)	(90,709.0)	(140,740.8)	(2,120.0)	(12,965.1)	(933.0)	(205.5)
Increase (decrease) in net pension obligation	4,511.6	(35,646.0)	(25,265.2)	71.8	(2,384.7)	(797.0)	(111.1)
Net pension obligation, beginning of year	1,774.4	(47,770.0)	(106,305.2)	(323.5)	(9,123.2)	1,821.4	52.2
Net pension obligation, end of year	\$ 6,286.0	\$ (83,416.0)	\$ (131,570.4)	\$ (251.7)	\$ (11,507.9)	\$ 1,024.4	\$ (58.9)
Significant Actuarial Assumptions							
Investment rate of return	7.00%	7.25%	7.25%	7.25%	7.25%	7.25%	7.25%
Projected future salary increases:							
Total	1.80%	3.50% - 17.00%	3.50% - 17.00%	5.00%	5.00%	5.00%	3.00%
Attributed to inflation	*	*	*	*	*	*	*
Cost of living adjustments	N/A	0.50%	0.50%	0.50%	N/A	N/A	0.50%
Contribution rates:							
State	23.50%	4.50%	4.70%	18.30%	39.20%	5.90%	20.00%
Plan members	6.00%	3.00%	3.00%	3.00%	6.00%	6.00%	5.00%
Actuarial valuation date	7/1/2005	7/1/2004	7/1/2004	7/1/2004	7/1/2004	7/1/2004	7/1/2004
Actuarial cost method	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	entry age normal cost	accrued benefit (unit credit)
Amortization method	level percent	level dollar	level dollar	level dollar	level dollar	level dollar	level dollar
Amortization period	40 years	30 years	30 years	30 years	30 years	30 years	30 years
Amortization period (from date)	7/1/1997	7/1/2002	7/1/2002	7/1/2002	7/1/2004	N/A	7/1/1992
Amortization period (open or closed)	closed	closed	closed	closed	closed	open	closed
Asset valuation method	smoothed basis	75% of expected actuarial value plus 25% of market value	75% of expected actuarial value plus 25% of market value	smoothed basis	smoothed market value	smoothed market value	smoothed market value
Historical Trend Information							
<u>Year ended June 30, 2005</u>							
Annual pension cost (APC)	\$ 12,055.2	*	*	*	*	*	*
Percentage of APC contributed	69.6%	*	*	*	*	*	*
Net pension obligation (asset)	\$ 6,286.0	*	*	*	*	*	*
<u>Year ended June 30, 2004</u>							
Annual pension cost (APC)	\$ 10,382.8	\$ 55,063.0	\$ 115,475.6	\$ 2,191.8	\$ 10,580.4	\$ 136.0	\$ 94.4
Percentage of APC contributed	80.8%	164.7%	121.9%	96.7%	122.5%	686.0%	217.7%
Net pension obligation (asset)	\$ 1,774.4	\$ (83,416.0)	\$ (131,570.4)	\$ (251.7)	\$ (11,507.9)	\$ 1,024.4	\$ (58.9)
<u>Year ended June 30, 2003</u>							
Annual pension cost (APC)	\$ 9,594.4	\$ 80,118.0	\$ 140,321.9	\$ 2,324.7	\$ 9,598.5	\$ 1,124.3	\$ 233.6
Percentage of APC contributed	87.4%	100.8%	93.3%	83.9%	138.3%	39.7%	79.9%
Net pension obligation (asset)	\$ (1,064.8)	\$ (48,513.0)	\$ (106,305.2)	\$ (323.5)	\$ (9,123.2)	\$ 1,821.5	\$ 52.2
<u>Year ended June 30, 2002</u>							
Annual pension cost (APC)	\$ 9,218.0	\$ 72,609.0	\$ 105,032.5	\$ 2,048.0	\$ 10,323.6	\$ 903.5	\$ 205.7
Percentage of APC contributed	104.0%	105.1%	122.5%	93.0%	121.5%	48.2%	90.7%
Net pension obligation (asset)	\$ (2,272.2)	\$ (47,092.0)	\$ (116,503.3)	\$ (696.7)	\$ (5,445.8)	\$ 1,143.2	\$ 5.3
SPRF - State Police Retirement Fund							
PERF - Public Employees' Retirement Fund							
ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund (Administered by the PERF board of trustees)							
JRS - Judges' Retirement System (Administered by the PERF board of trustees)							
PARF - Prosecuting Attorneys' Retirement Fund (Administered by the PERF board of trustees)							
LRS - Legislators' Retirement System (Administered by the PERF board of trustees)							
N/A - not applicable							
* - information not available							

The State sponsors the following cost-sharing multiple-employer plans:

State Teachers' Retirement Fund (Presented as a discretely presented component unit)

Plan Description The State Teachers' Retirement Fund (STRF), is a defined benefit, multiple-employer cost-sharing PERS, administered by the Indiana State Teachers' Retirement Fund Board of Trustees. Indiana Code 21-6.1 governs the requirements of the Fund. The Indiana State Teachers' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana State Teachers' Retirement Fund, 150 West Market Street, Suite 300, Indianapolis, IN 46204, or by calling 317-232-3860.

At June 30, 2005, the number of participating employers was 386.

Funding Policy Each school corporation contributes the employer's share to the Fund for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995 (post July 1, 1995 plan). The employer's share of contributions for certified personnel who are not employed under a federally funded program or were hired before July 1, 1995 is considered to be an obligation of, and is paid by, the State of Indiana (pre July 1, 1995 plan). The State Teachers' Retirement Fund has a total unfunded actuarial liability as of June 30, 2005, of \$8.4 billion. Indiana law provides that the STRF is on a "pay-as-you-go" basis. The Indiana General Assembly appropriated sufficient funds to provide for the State's estimated liability for the current

year. These appropriations include revenues from the State Lottery Commission.

1977 Police Officers' and Firefighters' Pension and Disability Fund (Presented as part of PERF – a discretely presented component unit)

Plan Description The 1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF) is a defined benefit, multiple employer cost sharing Public Employees Retirement System administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 36-8-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2005, the number of participating employer units totaled 160 (247 police and fire departments).

Funding Policy A participant is required by statute to contribute six percent of a first-class patrolman or firefighter's salary for the term of their employment up to thirty-two years. Employer contributions are determined actuarially. The funding policy mandated by statute requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll.

The annual required contributions, percentage contributed, and historical trend information, for the cost sharing, multiple-employer plans are as follows:

	<u>Discretely Presented Component Units</u>	
	<u>STRF</u>	<u>PFPF*</u>
<u>Historical Trend Information</u>		
<u>Year ended June 30, 2005</u>		
Annual required contribution	\$ 619,186.0	\$ 92,833.7
percentage contributed	78%	127%
<u>Year ended June 30, 2004</u>		
Annual required contribution	\$ 638,541.1	\$ 87,253.0
percentage contributed	69%	112%
<u>Year ended June 30, 2003</u>		
Annual required contribution	\$ 572,226.2	\$ 98,686.9
percentage contributed	106%	98%
STRF - State Teachers' Retirement Fund		
PFPF - 1977 Police Officers and Firefighters' Retirement Fund (Administered by PERF)		
* - year ended December 31		

The State sponsors the following defined contribution plan:

Legislators' Retirement System – Legislators' Defined Contribution Plan (Presented as part of PERF – a discretely presented component unit)

Plan Description The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution plan applies to each member of the General Assembly who was serving April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989. The plan provides retirement and survivor benefits. The plan is administered by the Board of Trustees' of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained

by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy For the Legislators' Defined Contribution Plan, each participant is required to contribute five percent of his annual salary. In addition, the State of Indiana is required to contribute 20% of the member's annual salary on behalf of the participant.

Discretely Presented Component Units

Governmental and proprietary fund types Employees of the Indiana Development Finance Authority, the Indiana Housing Finance Authority, and the Indiana Bond Bank are covered by the Public Employees' Retirement Fund (PERF). Contributions made during the fiscal year are included in the disclosures for PERF

REQUIRED SUPPLEMENTARY INFORMATION



Schedule of Funding Progress Employee Retirement Systems and Plans

(amounts expressed in thousands)	Primary Government	-----Discretely Presented Component Unit-----					
	SPRF	PERF -State	PERF-Municipal	ECRF	JRS	PARF	LRS
Valuation Date: July 1, 2005							
Actuarial value of assets	\$ 317,837	*	*	*	*	*	*
Actuarial accrued liability (AAL)	390,480	*	*	*	*	*	*
Excess of assets over (unfunded) AAL	(72,643)	*	*	*	*	*	*
Funded ratio	81%	*	*	*	*	*	*
Covered payroll	53,897	*	*	*	*	*	*
Excess (unfunded) AAL as a percentage of covered payroll	-135%	*	*	*	*	*	*
Valuation Date: July 1, 2004							
Actuarial value of assets	\$ 311,707	\$ 2,138,655	\$ 2,507,186	\$ 38,772	\$ 135,798	\$ 14,654	\$ 4,206
Actuarial accrued liability (AAL)	378,770	2,019,492	2,624,061	50,009	209,992	22,588	4,856
Excess of assets over (unfunded) AAL	(67,063)	119,163	(116,875)	(11,237)	(74,194)	(7,934)	(650)
Funded ratio	82%	106%	96%	78%	65%	65%	87%
Covered payroll	53,095	1,612,049	2,586,380	10,209	25,693	15,149	**
Excess (unfunded) AAL as a percentage of covered payroll	-126%	7%	-5%	-110%	-289%	-52%	**
Valuation Date: July 1, 2003							
Actuarial value of assets	\$ 313,123	\$ 2,078,952	\$ 2,478,161	\$ 37,286	\$ 126,151	\$ 12,758	\$ 4,199
Actuarial accrued liability (AAL)	360,502	1,860,101	2,437,632	52,006	206,846	15,685	4,947
Excess of assets over (unfunded) AAL	(47,379)	218,851	40,529	(14,720)	(80,695)	(2,927)	(748)
Funded ratio	87%	112%	102%	72%	61%	81%	85%
Covered payroll	51,204	1,491,661	2,460,569	11,944	25,400	13,158	**
Excess (unfunded) AAL as a percentage of covered payroll	-93%	15%	2%	-123%	-318%	-22%	**
Valuation Date: July 1, 2002							
Actuarial value of assets	\$ 304,773	\$ 2,061,790	\$ 2,445,113	\$ 37,360	\$ 121,155	\$ 11,957	\$ 4,446
Actuarial accrued liability (AAL)	349,772	2,010,178	2,666,590	55,884	188,434	22,386	5,503
Excess of assets over (unfunded) AAL	(44,999)	51,612	(221,477)	(18,524)	(67,279)	(10,429)	(1,057)
Funded ratio	87%	103%	92%	67%	64%	53%	81%
Covered payroll	50,895	1,475,076	2,350,458	12,654	25,805	14,437	**
Excess (unfunded) AAL as a percentage of covered payroll	-88%	3%	-9%	-146%	-261%	-72%	**
SPRF - State Police Retirement Fund PERF - Public Employees' Retirement Fund ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund (Administered by the PERF board of trustees) JRS - Judges' Retirement System (Administered by the PERF board of trustees) PARF - Prosecuting Attorneys' Retirement Fund (Administered by the PERF board of trustees) LRS - Legislators' Retirement System (Administered by the PERF board of trustees)							
* Information not available							
** The benefit formula is determined based on service rather than compensation. The unfunded liability is expressed per active participant and there are 50 active participants. The unfunded liability per active participant is \$13,010							

State of Indiana
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Major Funds (Budgetary Basis)
For the Year Ended June 30, 2005
(amounts expressed in thousands)

	General Fund			Variance to
	Budget		Actual	Final Budget
	Original	Final		
Revenues:				
Taxes:				
Income	\$ 4,046,800	\$ 4,046,800	\$ 4,917,029	\$ 870,229
Sales	2,540,200	2,540,200	2,371,922	(168,278)
Fuels	3,469	3,469	-	(3,469)
Gaming	-	-	85,445	85,445
Inheritance	120,000	120,000	152,401	32,401
Alcohol and tobacco	333,800	333,800	301,949	(31,851)
Insurance	168,700	168,700	186,525	17,825
Other	17	17	154,066	154,049
Total taxes	7,212,986	7,212,986	8,169,337	956,351
Current service charges	142,337	142,337	171,136	28,799
Investment income	30,000	30,000	38,910	8,910
Sales/rents	7,078	7,078	1,250	(5,828)
Grants	70,000	70,000	10,395	(59,605)
Other	62,114	62,114	34,510	(27,604)
Total revenues	7,524,515	7,524,515	8,425,538	901,023
Expenditures:				
Current:				
General government	621,938	1,121,280	995,567	125,713
Public safety	650,255	638,744	627,348	11,396
Health	90,030	100,704	99,835	869
Welfare	2,116,444	373,397	366,179	7,218
Conservation, culture and development	98,908	117,625	78,117	39,508
Education	5,836,192	5,666,604	5,651,754	14,850
Transportation	465	3,469	1,943	1,526
Other	11,327	-	-	-
Total expenditures	9,425,559	8,021,823	7,820,743	201,080
Excess of revenues over (under) expenditures	(1,901,044)	(497,308)	604,795	(1,102,103)
Other financing sources (uses):				
Total other financing sources (uses)	(531,739)	(531,739)	(551,590)	(19,851)
Net change in fund balances	\$ (2,432,783)	\$ (1,029,047)	\$ 53,205	\$ 1,082,252
Fund balances July 1, as restated			1,069,951	
Fund balances June 30			\$ 1,123,156	

Motor Vehicle Highway Fund				Medicaid Assistance			
Budget		Actual	Variance to Final Budget	Budget		Actual	Variance to Final Budget
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
483,373	483,373	482,375	(998)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
483,373	483,373	482,375	(998)	-	-	-	-
18,032	18,032	16,607	(1,425)	-	-	-	-
-	-	-	-	-	-	-	-
13	13	319	306	-	-	-	-
18,139	18,139	20,149	2,010	3,239,993	3,239,993	3,022,039	(217,954)
63,820	63,820	61,241	(2,579)	27	27	3,087	3,060
583,377	583,377	580,691	(2,686)	3,240,020	3,240,020	3,025,126	(214,894)
6,788	283,935	283,935	-	-	-	-	-
184,285	181,268	181,268	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	4,620,756	4,611,367	9,389
-	-	-	-	-	-	-	-
259	257	257	-	-	-	-	-
-	4,557	4,557	-	-	-	-	-
-	-	-	-	-	-	-	-
191,332	470,017	470,017	-	-	4,620,756	4,611,367	9,389
392,045	113,360	110,674	2,686	3,240,020	(1,380,736)	(1,586,241)	205,505
(110,876)	(110,876)	(96,509)	14,367	1,462,749	1,462,749	1,570,658	107,909
\$ 281,169	\$ 2,484	\$ 14,165	\$ 11,681	\$ 4,702,769	\$ 82,013	\$ (15,583)	\$ (97,596)
		(8,652)				(21,513)	
		<u>\$ 5,513</u>				<u>\$ (37,096)</u>	

continued on next page

State of Indiana
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Major Funds (Budgetary Basis)
For the Year Ended June 30, 2005
(amounts expressed in thousands)

	Build Indiana Fund			
	Budget		Actual	Variance to Final Budget
	Original	Final		
Revenues:				
Taxes:				
Income	\$ -	\$ -	\$ -	\$ -
Sales	-	-	-	-
Fuels	-	-	-	-
Gaming	-	-	-	-
Inheritance	-	-	-	-
Alcohol and tobacco	-	-	-	-
Insurance	-	-	-	-
Other	-	-	-	-
Total taxes	-	-	-	-
Current service charges	-	-	129,739	129,739
Investment income	-	-	-	-
Sales/rents	-	-	-	-
Grants	-	-	-	-
Other	141	141	142	1
Total revenues	141	141	129,881	129,740
Expenditures:				
Current:				
General government	-	20,213	11,466	8,747
Public safety	-	2	-	2
Health	-	26	-	26
Welfare	-	-	-	-
Conservation, culture and development	-	3,011	1,127	1,884
Education	-	28	-	28
Transportation	-	192	58	134
Other	-	-	-	-
Total expenditures	-	23,472	12,651	10,821
Excess of revenues over (under) expenditures	141	(23,331)	117,230	(140,561)
Other financing sources (uses):				
Total other financing sources (uses)	13,977	13,977	(115,824)	(129,801)
Net change in fund balances	\$ 14,118	\$ (9,354)	\$ 1,406	\$ 10,760
Fund balances July 1, as restated			23,461	
Fund balances June 30			\$ 24,867	

State Highway Department				Property Tax Replacement Fund			
Budget		Actual	Variance to Final Budget	Budget		Actual	Variance to Final Budget
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
14	14	-	(14)	2,321,710	2,321,710	2,438,794	117,084
1	1	2	1	-	-	-	-
-	-	-	-	8,524	8,524	-	(8,524)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
15	15	2	(13)	2,330,234	2,330,234	2,438,794	108,560
14,250	14,250	13,483	(767)	-	-	-	-
29	29	88	59	-	-	-	-
1,870	1,870	2,192	322	-	-	-	-
831,557	831,557	805,864	(25,693)	-	-	-	-
75,226	75,226	70,234	(4,992)	-	-	-	-
922,947	922,947	891,863	(31,084)	2,330,234	2,330,234	2,438,794	108,560
-	-	-	-	-	1,979,706	1,979,706	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,108,086	1,350,353	1,335,974	14,379	-	-	-	-
-	-	-	-	-	-	-	-
1,108,086	1,350,353	1,335,974	14,379	-	1,979,706	1,979,706	-
(185,139)	(427,406)	(444,111)	16,705	2,330,234	350,528	459,088	(108,560)
475,829	475,829	485,846	10,017	(398,794)	(398,794)	(459,088)	(60,294)
\$ 290,690	\$ 48,423	\$ 41,735	\$ (6,688)	\$ 1,931,440	\$ (48,266)	\$ -	\$ 48,266
		284,025				-	
		\$ 325,760				\$ -	

continued on next page

State of Indiana
Combining Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
Major Funds (Budgetary Basis)
For the Year Ended June 30, 2005
(amounts expressed in thousands)

	Tobacco Settlement Fund			
	Budget		Actual	Variance to
	Original	Final		Final Budget
Revenues:				
Taxes:				
Income	\$ -	\$ -	\$ -	\$ -
Sales	-	-	-	-
Fuels	-	-	-	-
Gaming	-	-	-	-
Inheritance	-	-	-	-
Alcohol and tobacco	-	-	-	-
Insurance	-	-	-	-
Other	-	-	-	-
Total taxes	-	-	-	-
Current service charges	129,852	129,852	130,001	149
Investment income	1,140	1,140	366	(774)
Sales/rents	-	-	-	-
Grants	-	-	415	415
Other	12	12	146	134
Total revenues	131,004	131,004	130,928	(76)
Expenditures:				
Current:				
General government	-	22,586	22,494	92
Public safety	-	-	-	-
Health	-	36,310	36,310	-
Welfare	-	162	76	86
Conservation, culture and development	-	64	64	-
Education	-	-	-	-
Transportation	-	-	-	-
Other	-	-	-	-
Total expenditures	-	59,122	58,944	178
Excess of revenues over (under) expenditures	131,004	71,882	71,984	(102)
Other financing sources (uses):				
Total other financing sources (uses)	(116,733)	(116,733)	(117,364)	(631)
Net change in fund balances	<u>\$ 14,271</u>	<u>\$ (44,851)</u>	<u>\$ (45,380)</u>	<u>\$ (529)</u>
Fund balances July 1, as restated			238,068	
Fund balances June 30			<u>\$ 192,688</u>	

Budget/GAAP Reconciliation Major Funds

The cash basis of accounting (budgetary basis) is applied to each budget. The budgetary basis differs from GAAP. The major differences between budgetary (non-GAAP) basis and GAAP basis are:

(amounts expressed in thousands)								
	GENERAL FUND	MOTOR VEHICLE HIGHWAY FUND	MEDICAID ASSISTANCE	BUILD INDIANA FUND	STATE HIGHWAY DEPARTMENT	PROPERTY TAX RELIEF FUND	TOBACCO SETTLEMENT FUND	Total
Net change in fund balances (budgetary basis)	\$ 53,205	\$ 14,165	\$ (15,583)	\$ 1,406	\$ 41,735	\$ -	\$ (45,380)	\$ 49,548
Adjustments necessary to convert the results of operations on a budgetary basis to a GAAP basis are:								
Revenues are recorded when earned (GAAP) as opposed to when cash is received (budgetary)	55,270	(915)	22,298	27,069	(130,541)	12,825	10,300	(3,694)
Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (budgetary)	<u>(11,939)</u>	<u>(4,615)</u>	<u>-</u>	<u>197</u>	<u>(1,159)</u>	<u>(17,101)</u>	<u>(1,165)</u>	<u>(35,782)</u>
Net change in fund balances (GAAP basis)	<u>\$ 96,536</u>	<u>\$ 8,635</u>	<u>\$ 6,715</u>	<u>\$ 28,672</u>	<u>\$ (89,965)</u>	<u>\$ (4,276)</u>	<u>\$ (36,245)</u>	<u>\$ 10,072</u>

Infrastructure - Modified Reporting

Condition Rating of the State's Highways and Bridges

Roads

	Average Pavement Quality Index (PQI)		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interstate Roads (including Rest Areas and Weigh Stations)	88	87	87
NHS Roads - Non-Interstate (including Rest Areas and Weigh Stations)	81	82	83
Non-NHS Roads	77	79	80

The condition of road pavement is measured using a pavement quality index (PQI), which is based on a weighted average of three distress factors found in pavement surfaces. The PQI uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in excellent condition (90-100), good condition (80-89), fair condition (70-79), and poor condition (less than 70).

It is the State's policy to maintain Interstate and NHS Non-Interstate roads at an average PQI of 75 and Non-NHS roads at an average PQI of 65. Condition assessments are determined on an annual basis for Interstates and on a biennial basis for other roads. The ratings provided are based on data gathered during the summer (July and August) of the corresponding fiscal year. The data are evaluated and compared to standard criteria by the end of the fiscal year.

Bridges

	Average Sufficiency Rating		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interstate Bridges	91.0%	91.5%	91.1%
NHS Bridges - Non-Interstate	90.8%	91.2%	90.1%
Non-NHS Bridges	88.3%	88.4%	87.8%

The condition of the State's bridges is measured based on a sufficiency rating, which is based on a weighted average of four factors indicative of a bridge's sufficiency to remain in service. The sufficiency rating uses a measurement scale that ranges from zero for an entirely insufficient or deficient bridge to 100 for an entirely sufficient bridge. The sufficiency rating is used to classify bridges in excellent condition (90-100), good condition (80-89), fair condition (70-79), marginal condition (60-69), and poor condition (below 60). It is the State's policy to maintain Interstate bridges at a minimum sufficiency rating of 87%, NHS Non-Interstate bridges at 85%, and Non-NHS bridges at 83%. Sufficiency ratings are determined at least on a biennial basis for all bridges. Sufficiency ratings are determined more frequently for certain bridges depending on their design.

Infrastructure - Modified Reporting
Comparison of Needed-to-Actual Maintenance/Preservation
(dollars in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Roads					
Interstate Roads (including Rest Areas and Weigh Stations):					
Needed	\$ 151,999	\$ 194,098	\$ 113,469	\$ 101,574	N/A
Actual	140,667	253,555	167,472	198,144	N/A
NHS Roads - Non-Interstate (including Rest Areas and Weigh Stations)					
Needed	73,331	71,244	52,857	67,392	N/A
Actual	35	55	2,450	2,618	N/A
Non-NHS Roads					
Needed	157,122	185,437	196,063	185,909	N/A
Actual	376,934	414,964	390,020	311,757	N/A
Roads at State Institutions and Properties					
Needed	2,903	2,689	4,000	5,000	N/A
Actual	5,595	4,381	6,044	1,603	N/A
Total					
Needed	385,355	453,468	366,389	359,875	N/A
Actual	523,231	672,955	565,986	514,122	N/A
Bridges					
Interstate Bridges					
Needed	\$ 39,166	\$ 19,946	\$ 11,220	\$ 42,634	N/A
Actual	23,863	28,723	36,736	27,838	N/A
NHS Bridges - Non-Interstate					
Needed	2,021	26,411	25,618	35,384	N/A
Actual	1,282	7,766	12,324	11,265	N/A
Non-NHS Bridges					
Needed	32,597	34,929	44,659	41,116	N/A
Actual	61,271	73,356	60,314	74,388	N/A
Bridges at State Institutions and Properties					
Needed	164	926	-	-	N/A
Actual	796	702	-	-	N/A
Total					
Needed	73,948	82,212	81,497	119,134	N/A
Actual	87,212	110,547	109,374	113,491	N/A

N/A - Information is not available



SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

TO: THE OFFICIALS OF THE STATE OF INDIANA

Compliance

We have audited the compliance of the State of Indiana with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. The State of Indiana's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State of Indiana's compliance based on our audit. We did not audit the Capitalization Grants for State Revolving Fund, CFDA 66.458, a major program for the State for which the Schedule of Expenditures of Federal Awards reflects total federal expenditures of \$25,969,581 as of June 30, 2005. This major program was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement for the State of Indiana is based solely on the report of the other auditors.

The State of Indiana's basic financial statements include the operations of Purdue University, Indiana University, Indiana State University, Ball State University, Vincennes University, University of Southern Indiana, and Ivy Tech State College, which expended a total of \$674,327,816 in federal awards that are not included in the schedule for the year ended June 30, 2005. Our audit, described below, did not include the operations of these units because they have separate audits performed in accordance with OMB Circular A-133. See Note 3 of the Notes to the Schedule of Expenditures of Federal Awards for federal funds expended by each unit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Indiana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Indiana's compliance with those requirements.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

As described in the findings in the accompanying Schedule of Findings and Questioned Costs or in the Summary Schedule of Prior Findings accompanying this report, the State of Indiana did not comply with certain requirements that are applicable to certain federal programs. Compliance with such requirements is necessary, in our opinion, for the State of Indiana to comply with requirements applicable to each program. The following list includes the findings, federal programs involved, and the requirements affected:

<u>Finding Number</u>	<u>Federal Program Name</u>	<u>Requirements Not Complied With</u>
2002-FSSA-3	Social Services Block Grant	Allowable cost/cost principles, Subrecipient monitoring

In our opinion, based on our audit and the report of other auditors, except for the noncompliance described in the findings listed in the preceding paragraph, the State of Indiana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as 96-FSSA-33, 2000-FSSA-1, 2000-FSSA-3, 2000-FSSA-5, 2003-FSSA-16, 2005-FSSA-18, 2005-FSSA-22, 2005-FSSA-25, 2005-FSSA-28, and 2005-FSSA-30.

Internal Control Over Compliance

The management of the State of Indiana is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Indiana's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133. We did not test the internal control over compliance for the Capitalization Grants for State Revolving Fund, CFDA 66.458, a major program for the State for which the Schedule of Expenditures of Federal Awards reflects total federal expenditures of \$25,969,581 as of June 30, 2005. The internal control for this major program was tested by other auditors whose report has been furnished to us, and our report, insofar as it relates to the internal control for this major program is based solely on the report of the other auditors.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Indiana's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questions Costs as Findings 2005-FSSA-1, 2005-FSSA-2, 2005-FSSA-3, 2005-FSSA-4, 2005-FSSA-5, 2005-FSSA-6, 2005-FSSA-7, 2005-FSSA-8, 2005-FSSA-9, 2005-FSSA-10, 2005-FSSA-11, 2005-FSSA-12, 2005-FSSA-13, 2005-FSSA-14, 2005-FSSA-15, 2005-FSSA-16, 2005-FSSA-17, 2005-FSSA-18, 2005-FSSA-19, 2005-FSSA-20, 2005-FSSA-21, 2005-FSSA-22, 2005-FSSA-23, 2005-FSSA-24, 2005-FSSA-25, 2005-FSSA-26, 2005-FSSA-27, 2005-FSSA-28, 2005-FSSA-29, 2005-FSSA-30, 2005-DWD-1, 2005-DWD-2, and 2005-IDHS-1. Reportable conditions per the prior audit that are still considered a reportable condition are Findings 99-FSSA-7, 2000-FSSA-1, 2000-FSSA-2, 2000-FSSA-3, 2000-FSSA-5, 2002-FSSA-3, 2003-FSSA-1, 2003-FSSA-3, 2003-FSSA-6, 2003-FSSA-9, 2003-FSSA-16, 2004-FSSA-2, 2004-FSSA-3, 2004-FSSA-4, 2004-FSSA-5, 2004-FSSA-6, 2004-FSSA-7, and 2004-FSSA-8.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration, and the consideration of the other auditors, of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions listed above, we, consider Findings 99-FSSA-7, 2000-FSSA-3, 2000-FSSA-5, 2002-FSSA-3, 2005-FSSA-5, 2005-FSSA-22, 2005-FSSA-28, and 2005-FSSA-30 to be material weaknesses.

Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the State of Indiana as of and for the year ended June 30, 2005. We have issued our report thereon dated December 27, 2005. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. We did not audit the State Revolving Fund for the State for which the Schedule of Expenditures of Federal Awards reflects total federal expenditures of \$25,969,581 as of June 30, 2005. This fund was audited by other auditors whose report has been furnished to us and, our opinion, insofar as it relates to this fund, is based solely on the report of the other auditors. The Schedule of Expenditures of Federal Awards has been subjected to auditing procedures applied in the audit of the major programs and, in our opinion, based on our audit and the report of the other auditors, is fairly stated, in all material respects, in relation to the basic financial statements of the State of Indiana.

This report is intended solely for the information and use of the State of Indiana's management, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than the specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts.

STATE BOARD OF ACCOUNTS

March 31, 2006

STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2004 to June 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
Food Stamps Cluster					
Food Stamps	10.551	FSSA	N/A	\$ 607,854,574	\$ -
State Administrative Matching Grants for Food Stamp Program	10.561	FSSA	2001 IS 2514 42	89,030	-
			2002 IS 2514 42	176,810	-
			2003 IS 2514 42	56,232	-
			2004 IS 2514 42	7,780,142	-
			2005 IS 2514 42	24,152,007	-
			Prior Year	(51,878)	-
			2003 IE 2518 42	615	-
			2004 IE 2518 42	(581,706)	-
			2005 IE 2518 42	354,916	-
			2000 IS 2519 42	1,183	-
			2002 IS 2519 42	(48)	-
			2003 IS 2519 42	(451)	-
			2004 IS 2519 42	1,361,024	-
			2005 IS 2519 42	2,080,232	-
			2005 IS 2520 42	274,747	-
			2004 IS 2520 42	175,739	-
			2004 IS 2522 42	(19)	-
			2004 2E 2518 42	359,114	-
			2005 2E 2518 42	129,724	-
			2005 3E 2518 42	1,371,663	-
			2XE251842	(625)	-
			2005 IS 8036 42	2,385	-
			2004 IS 8036 42	6,695	-
<i>Total for Program</i>				<u>37,737,531</u>	<u>-</u>
<i>Total for Cluster</i>				<u>645,592,105</u>	<u>-</u>
Child Nutrition Cluster					
School Breakfast Program	10.553	IDOE	2004IN109942	24,795,504	2,495,504
National School Lunch Program	10.555	IDOE	2004IN109942	125,838,453	125,838,453
National School Lunch Food Commodities			N/A	21,112,636	-
<i>Total for Program</i>				<u>146,951,089</u>	<u>125,838,453</u>
Special Milk Program for Children	10.556	IDOE	2004IN109942	262,929	262,929
Summer Food Service Program for Children	10.559	IDOE	2005IN109942	3,761,606	3,761,606
Summer Food Service Program Summer Food Service State Administration			2005IN109942	93,522	-
<i>Total for Program</i>				<u>3,855,128</u>	<u>3,761,606</u>
<i>Total for Cluster</i>				<u>175,864,650</u>	<u>132,358,492</u>
Emergency Food Assistance Cluster					
Emergency Food Assistance Program	10.568	FSSA	2004 IY 8105 42	123,700	-
			2005 IY 8105 42	520,519	-
			2004 IS 2202 42	15,348	-
			2005 IS 2202 42	160,329	-
<i>Total for Program and Cluster</i>				<u>819,896</u>	<u>-</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2004 to June 30, 2005
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF AGRICULTURE (continued)</u>					
Plant and Animal Disease, Pest Control, and Animal Care	10.025				
Computer Data and Storage 2005		BOAH	05-9518-0004-CA	3,141	-
Scrapie Program 2004		BOAH	04-9618-00039CA	43,878	-
Scrapie Program 2005		BOAH	05-9618-00039CA	172,510	-
Johne's Program 2003		BOAH	03-9618-0159-CA	25,698	-
Johne's Program 2004		BOAH	04-9618-0159-CA	280,102	-
Johne's Program 2005		BOAH	04-9618-0159-CA	4,823	-
Surveillance of BSE 2003		BOAH	03-9618-0197-CA	9,640	-
Surveillance of BSE 2004		BOAH	03-9618-0197-CA	31,190	-
Exotic NewCastle Disease Surveillance 2004		BOAH	03-9618-0292-CA	2,800	-
FAD Surveillance		BOAH	04-9618-0098-CA	4,688	-
Animal Emergency Management		BOAH	04-9618-0339-CA	1,400	-
National Animal ID		BOAH	05-9118-0953-CA	16,706	-
Emerald Ash Borer Survey and Control		DNR	04-8218-0431-CA	2,118,547	-
Cooperative Agricultural Pest Survey		DNR	04-8218-0332-CA	109,502	-
Noxious Weed		DNR	04-8218-302-CA	12,223	-
Noxious Weed		DNR	05-8218-302-CA	1,921	-
Chronic Wasting Disease		DNR	W3CED3	20,492	5,835
Chronic Wasting Disease		DNR	W3CED4	25,549	-
<i>Total for Program</i>				<u>2,884,810</u>	<u>5,835</u>
Conservation Reserve	10.069	DNR	04-DG-11244225-384	3,752	-
			04-DP-11244225-507	51,867	-
<i>Total for Program</i>				<u>55,619</u>	<u>-</u>
Federal-State Cooperation in Warehouse Examination Agreement	10.071	LtGov			
Grain Storage Comprehensive Cooperative Agreement			N/A	5,019	-
Market Protection and Promotion	10.163				
National Organic Certification Cost Sharing		LtGov	12-25-A-4150	5,466	5,466
State Mediation Grants	10.435	COM			
			150010355000159	61,192	-
Cooperative Agreements With States for Intrastate					
Meat and Poultry Inspection	10.475	BOAH			
Meat and Poultry Program 2001			318-B-1-983	1,554	-
Meat and Poultry Program 2004			318-B-1-983	419,517	-
Meat and Poultry Program 2005			318-B-1-983	1,291,900	-
<i>Total for Program</i>				<u>1,712,971</u>	<u>-</u>
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	ISDOH			
USDA WIC Program - 2003			MWSSHP2-3:WFM2	844,700	-
USDA WIC Program - 2004			MWSSHP2-3:WFM2	32,895,734	32,678,540
USDA WIC Program - 2005			MWSSHP2-3:WFM2	75,366,787	74,684,702
WIC Peer Counselor Grant			MWSSHP3:WC1-2	28,929	21,780
<i>Total for Program</i>				<u>109,136,150</u>	<u>107,385,022</u>
Child and Adult Care Food Program	10.558	IDOE			
Child Care Food Service Program			2005IN109942	29,057,864	29,057,864
Child Care Audit Program			2005CN109942	366,327	81,632
<i>Total for Program</i>				<u>29,424,191</u>	<u>29,139,496</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2004 to June 30, 2005
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF AGRICULTURE (continued)</u>					
State Administrative Expenses for Child Nutrition	10.560	IDOE	2005IN253342	1,944,407	-
Commodity Supplemental Food Program	10.565	FSSA	2004 IY 8005 42 2005 IY 8005 42	78,903 158,052	- -
<i>Total for Program</i>				236,955	-
Emergency Food Assistance Program	10.569	LtGov	H.R.2213Sec.7	84,709	84,221
Team Nutrition Grants	10.574	IDOE	2004IN350330	45,564	45,564
Forestry Research Cooperative Law Enforcement Agreement	10.652	DNR	N/A	6,500	-
Cooperative Forestry Assistance	10.664	DNR			
Conservation Education - 2003			03-DG-11244225-213	5,919	-
Nursery and Tree Improvement - 2004			04-DG-11244225-019	11,000	-
Nursery and Tree Improvement - CP-2003			03-DG-11244225-213	11,000	-
Forest Stewardship Watershed			03-DG-11244225-213	14,072	-
Cooperative Lands - 2003			03-DG-11244225-213	859	-
Forest Health Monitoring - 2004			04-DG-11244225-019	23,965	-
Forest Health Monitoring - 2003			03-DG-11244225-213	379	-
Forest Health Monitoring - 2005			05-DG-11244225-035	7,361	-
Forest Health Monitoring - 2002			00-CA-11231300-083	(15,660)	-
Slow the Spread - 2003			03-01-04	77,042	-
Slow the Spread - 2004			04-01-04	160,867	-
Slow the Spread - 2005			05-01-04	33,377	-
Volunteer Fire - 2001			01-DG-11244225-226	3,409	-
Volunteer Fire - 2002			02-DG-11244225-251	7,656	-
Volunteer Fire - 2002			02-DG-11244225-251	20,598	2,800
Volunteer Fire - 2003			02-DG-11244225-214	52,259	3,500
Volunteer Fire - 2004			04-DG-11244225-020	195,350	-
State Fire Assistance - 2001			01-DG-11244225-072	2,591	11,140
State Fire Assistance - 2002			02-DG-11244225-229	16,268	-
State Fire Assistance - 2003			03-DG-11244225-213	13,479	64,945
State Fire Assistance - 2004			04-DG-11244225-019	31,604	-
Urban Forestry - 2002			02-DG-11244225-229	121,009	26,588
Urban Forestry - 2003			03-DG-11244225-213	121,106	-
Urban Forestry - 2004			04-DG-11244225-019	46,582	24,273
Urban Forestry Health Monitoring Survey - 2001			01-DG-11244225-220	3	-
Stewardship - 2001			01-DG-11244225-209	21,703	-
Stewardship - 2002			02-DG-11244225-229	41,408	-
Stewardship - 2003			03-DG-11244225-213	102,388	-
Stewardship - 2004			04-DG-11244225-019	272,682	-
Forest Land Enhancement			03-DG-11244225-544	110,717	55,444
Forest Legacy - 2000			00-DG-11244225-159	(854)	-
Forest Legacy - 2004			04-DG-11244225-022	6,986	-
Forest Legacy - 2000 (Hills of Gold)			00-DG-11244225-159	308,214	-
Forest Legacy - Big Spring			01-DG-11244225-096	80,000	-
Forest Legacy - 2001 (Gnaw Bone Camp)			01-DG-11244225-096	411,551	-
Forest Legacy - 2001 (Rivers Edge)			01-DG-11244225-096	157,107	-
Forest Legacy AC of Shawnee Hills			04-DG-11244225-121	297	-
Legacy 2002 Administration			01-DG-11244225-252	4,208	-
Legacy 2003 Administration			01-DG-11244225-216	21,905	-
Legacy JKS Defeat			01-DG-11244225-096	(22,250)	-
Legacy Snake Cr			01-DG-11244225-096	2,465	-
Legacy Rivers Edge			00-DG-11244225-159	101	-
Cooperative Forest Health Protection			04-DG-11244225-019	17,716	-
Forest Health Protection			05-DG-11244225-035	2,861	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
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<u>U.S. DEPARTMENT OF AGRICULTURE (continued)</u>					
Cooperative Forestry Assistance (continued)					
Forest Health Evaluation			04-DG-11244225-019	1,865	-
CFM EAB - 2004			04-DG-11244225-019	4,743	-
Gypsy Moth Survey			04-DG-11244225-019	1,629	-
Spatial Analysis Project - 2004			04-DG-11244225-019	1,870	-
Emerging Technologies			04-DG-11244225-180	512	-
Invasive Plants			02-DG-11244225-229	1,862	-
Forest Health Invasive Species			04-DG-11244225-437	650	-
Sirex Detection - 2005			05-DG-11244225-035	11	-
Sirex Detection - 2004			04-DG-11244225-019	1,699	-
Sirex Detection - 2003			03-DG-11244225-217	441	-
Emerald Ash Borer - 2005			05-DG-11244225-035	13,159	-
Emerald Ash Borer - 2004			04-DG-11244225-019	26,817	-
Emerald Ash Borer - 2003			03-DG-11244225-412	6,542	-
Research St. Paul - 2003			03-CS-11231300-069	(19)	-
Research St. Paul - 2004			03-CS-11231300-069	724	-
Survey and Technical Assistance - 2002			02-DG-11244225-229	14,383	-
<i>Total for Program</i>				2,578,188	188,690
Rural Development, Forestry and Communities	10.672	DNR			
Rural Development - 2002			02-DG-11244225-247	5,836	-
Rural Development - 2003			03-DG-11244225-215	6,905	-
<i>Total for Program</i>				12,741	-
Forest Stewardship Program	10.678	DNR			
			04-DG-11244225-377	8,592	-
			04-DG-11244225-378	12,169	-
<i>Total for Program</i>				20,761	-
Rural Business Enterprise Grants	10.769	SRDC			
State Rural Development Council 07-01-03 - 06-30-04			OCD-04-15-IN	42,066	-
State Rural Development Council 07-01-04 - 06-30-05			OCD-04-15-IN	41,226	-
<i>Total for Program</i>				83,292	-
Environmental Quality Incentives Program	10.912	DNR			
			65-52KY-3-869	7,876	-
			65-52KY-5-0018	114	-
<i>Total for Program</i>				7,990	-
Wildlife Habitat Incentive Program	10.914	DNR			
			N/A	3,818	-
			65-52KY-3-869	4,240	-
			7252KY4A003	1,516	-
			7252KY4A101	293	-
			7252KY4A149	2,217	-
<i>Total for Program</i>				12,084	-
Other Assistance					
Meat Source Safety	10	BOAH			
			FSIS-C-27-2002	15,754	-
			FSIS-C-27-2002	30,263	-
<i>Total for Program</i>				46,017	-
Homeland Security	10	BOAH			
			03-9618-0057CA	131,725	-

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<u>U.S. DEPARTMENT OF AGRICULTURE (continued)</u>					
Other Assistance (continued)					
Moraine Grass Waterway	10	DNR	N/A	50	-
Fresh Fruit and Vegetable Pilot Program	10	IDOE	2005IL160330	679,757	679,757
WIC/CHIP Demonstration Project (Hoosier Healthwise) - 2003	10	ISDOH	58-31198-01-033	11,397	11,397
Mammography Inspection Program	10	ISDOH			
2005			223-01-4413	119,140	-
2006			223-01-4413	3,052	-
Total for Program				122,192	-
Total for Other Assistance				991,138	691,154
Total U.S. Department of Agriculture				971,586,398	269,903,940
<u>U.S. DEPARTMENT OF COMMERCE</u>					
Coastal Zone Management Administration Awards	11.419	DNR			
			NA03NOS4190083	47,636	3,248
			NA04NOS4190039	65,348	12,363
			NA170Z1381	426,788	298,541
			NA170Z2334	398,956	177,639
Total for Program				938,728	491,791
Total U.S. Department of Commerce				938,728	491,791
<u>U.S. DEPARTMENT OF DEFENSE</u>					
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	IDEM			
Defense Environmental Restoration					
DERA Air Force			IN 00-1	18,109	-
BRAC 91 Air Force			IN 00-1	18,008	-
BRAC 88 Army			IN 00-1	17,264	-
BRAC 95 Navy			IN 00-1	14,527	-
DERA Air Force			IN 02-1	28,369	-
BRAC 91 Air Force			IN 02-1	17,839	-
BRAC 88 Army			IN 02-1	10,751	-
BRAC 95 Navy			IN 02-1	7,157	-
FUDS MAP			IN 02-1	17	-
BRAC 91 Air Force			IN 04-1	18,002	-
DERA Air Force			IN 04-1	54,633	-
BRAC 88 Army			IN 04-1	20,548	-
BRAC 95 Navy			IN 04-1	5,967	-
FUDS			IN 04-1	4,119	-
FUDS MAP			IN 04-1	1,934	-
Payroll Holding			IN 04-1	15,086	-
Newport Army Chemical Demilitarization			N/A	136,558	-
Newport Army Chemical Demilitarization			N/A	196,436	-
Newport Army Non-Stockpile			N/A	25,292	-
Total for Program				610,616	-
Basic and Applied Scientific Research	12.300	DNR	N62467-04-RP-00136	13,171	-
			N62467-04-RP-00179	2,697	-
Total for Program				15,868	-

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF DEFENSE (continued)</u>					
Military Construction, National Guard	12.400	MD			
Water System Improvement - ARFTA			DAHA12-00-2-2001	4,994	-
ADRS Projects			DAHA12	5,405,908	-
Battle Simulation Center - ARFTA			NGB12-04-C-0001	5,284,482	-
<i>Total for Program</i>				10,695,384	-
National Guard Military Operations and Maintenance Projects	12.401	MD			
Real Property Operation and Maintenance			W912L9-05-2-1001	9,772,969	-
ARNG Environmental			W912L9-05-2-1002	649,400	-
ARNG Security Personnel			W912L9-05-2-1003	314,051	-
ARNG Electronic Security			W912L9-05-2-1004	230,655	-
ARNG Telecommunications			W912L9-05-2-1005	1,585,452	-
Ranges and Training Land Program			W912L9-05-2-1007	1,733,147	-
ARNG Distance Learning Centers			W912L9-05-2-1040	2,904	-
State Family Program Activities			W912L9-05-2-1041	114,019	-
ANG Real Property Operation and Maintenance - Baer Field			W912L9-05-2-1021-1	568,723	-
ANG Real Property Operation and Maintenance - Hulman Field			W912L9-05-2-1021-2	574,772	-
ANG Security Guard Activities - Baer Field			W912L9-05-2-1023-1	465,082	-
ANG Security Guard Activities - Hulman Field			W912L9-05-2-1023-2	467,214	-
ANG Fire Protection Activities - Baer Field			W912L9-05-2-1024-1	469,315	-
ANG Fire Protection Activities - Hulman Field			W912L9-05-2-1024-2	1,106,338	-
<i>Total for Program</i>				18,054,041	-
<i>Total U.S. Department of Defense</i>				29,375,909	-
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					
CDBG-Entitlement and (HUD-Administered) Small Cities Cluster Development Block Grant/Entitlement Grant	14.218	DWD	City of Ft. Wayne	5,669	-
<i>Total for Program and Cluster</i>				5,669	-
Section 8 Project-Based Cluster Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation - Voucher Housing Program	14.856	FSSA	IN 901 V00082107	20,288,015	1,277,094
<i>Total for Program and Cluster</i>				20,288,015	1,277,094
Manufactured Home Construction and Safety Standards	14.171	IDFBS	N/A	57,792	-
Community Development Block Grants/State's Program	14.228	COM			
			B-98-DC-180001	14,415	14,415
			B-99-DC-180001	156,403	156,403
			B-00-DC-180001	506,542	508,861
			B-01-DC-180001	1,082,751	1,082,751
			B-02-DC-180001	4,689,357	4,689,357
			B-03-DC-180001	23,992,921	23,992,921
			B-04-DC-180001	5,317,288	5,317,288
<i>Total for Program</i>				35,759,677	35,761,996
Emergency Shelter Grants Program	14.231	FSSA	S04DC180001	1,669,370	-
			S 03DC180001	118,166	-
<i>Total for Program</i>				1,787,536	-

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (continued)</u>					
Shelter Plus Care	14.238	FSSA	IN36C203011	6,608	-
			IN36C903002	174,407	-
			IN36C302001	34,562	-
			IN36C302009	956	-
			IN36C302021	48,212	-
			IN36C304009	92,742	-
			IN36C202008	49,689	-
<i>Total for Program</i>				<u>407,176</u>	<u>579,863</u>
Pass-Through Indiana Housing Finance Authority Home Investment Partnerships Program	14.239	IGPC	SR-03-02	<u>37,795</u>	-
<i>Total Pass-Through</i>				<u>37,795</u>	-
Fair Housing Initiatives Program (FHIP) Education and Outreach Initiative	14.409	ICRC	FH400G04101	<u>25,263</u>	-
<i>Total U.S. Department of Housing and Urban Development</i>				<u>58,368,923</u>	<u>37,618,953</u>
<u>U.S. DEPARTMENT OF INTERIOR</u>					
Fish and Wildlife Cluster					
Sport Fish Restoration	15.605	DNR			
Statewide Fisheries Management			F-10-D-37	968,388	35,802
Statewide Fisheries Management			F-10-D-38	477,702	13,214
Fish Hatchery Research			F-18-R-16	72,994	72,994
Fish Hatchery Research			F-18-R-17	165,785	165,785
Fish Hatchery Operations			F-21-D-15	749,200	10,136
Fish Hatchery Operations			F-21-D-14	901,474	87,400
Aquatic Education Program			F-24-E-10	128,839	8,156
Aquatic Education Program			F-24-E-09	68,431	14,063
Federal Aid Coordination			FW-14-C-51	33,500	-
Public Access			FW-21-D-38	274,792	1,238
Public Access			FW-21-D-37	436,063	7,923
Fish and Wildlife Area Development			FW-22-D-38	15,545	-
Fish and Wildlife Area Development			FW-22-D-37	15,047	-
Technical Assistance			FW-26-T-14	161,864	-
Technical Assistance			FW-26-T-13	1,174	-
Facility Construction			FW-28-D-04	114,671	114,207
<i>Total for Program</i>				<u>4,585,469</u>	<u>530,918</u>
Wildlife Restoration	15.611	DNR			
Federal Aid Coordination			FW-14-C-51	33,500	-
Fish and Wildlife Area Development			FW-22-D-38	816,487	-
Fish and Wildlife Area Development			FW-22-D-37	1,573,893	3,750
Technical Assistance			FW-26-T-14	107,909	-
Renovation Huntington			FW-28-D-03	813,772	813,772
Statewide Wildlife Research			W-26-R-36	438,898	24,485
St. Joe Valley Phase 3			W-32-S-11	163,000	163,000
Wells County Conservation Club			W-32-S-12	34,431	34,431
Kosko Shooting Range Project			W-32-S-10	8,101	8,101
<i>Total for Program</i>				<u>3,989,991</u>	<u>1,047,539</u>
<i>Total for Cluster</i>				<u>8,575,460</u>	<u>1,578,457</u>

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF INTERIOR (continued)</u>					
Abandoned Mine Land Reclamation Program	15.252	DNR			
Administration and Enforcement - 2003			GR403183	606,649	-
Administration and Enforcement - 2004			GR503183	1,347,081	-
Abandoned Mine Lands Simplified Grant - 2002			GR207180	537,114	-
Abandoned Mine Lands Simplified Grant - 2003			GR307180	1,589,002	-
Abandoned Mine Lands Simplified Grant - 2004			GR407180	1,728,706	-
Abandoned Mine Lands Simplified Grant - 2005			GR507180	902,705	-
<i>Total for Program</i>				<u>6,711,257</u>	<u>-</u>
Cooperative Endangered Species Conservation Fund	15.615	DNR			
Federally Endangered Running Buffalo Clover			30181-4-J144	2,594	-
Karner Blue Butterfly Safe Harbor			E-1-15	4,154	3,274
Habitat Conservation/Indiana Bat			E-3-HP-1	520,990	520,990
<i>Total for Program</i>				<u>527,738</u>	<u>524,264</u>
Clean Vessel Act	15.616	IDEM			
Clean Vessel Pumpout			CV-1-7	35,094	-
Clean Vessel Pumpout			CV-1-8	61	-
Clean Vessel Pumpout			CV-1-9	112	-
French Island Marina			Y-2-B-1	22,470	-
<i>Total for Program</i>				<u>57,737</u>	<u>-</u>
Landowner Incentive	15.633	DNR	I01T01	42,690	23,252
State Wildlife Grant	15.634	DNR			
Restore and Manage Rare Habitat			TO101	30,213	-
Restore and Manage Rare Habitat			TO102	124,675	77,104
ACQ Baseline Habitat Information			TO2P01	108,421	81,378
Comprehensive Wildlife Plan			TO2P02	181,963	152,676
Baseline Burrowing Crayfish Study			TO2P03	145,196	115,944
Wildlife Diversity Surveys			TO3S01	73,481	33,134
Wildlife Diversity Surveys			TO3S02	80,182	370
Wildlife Diversity Research			TO4R01	14,018	5,206
Wildlife Diversity Research			TO4R02	50,811	12,479
Wildlife Diversity Management			TO5M01	44,643	1,227
Wildlife Diversity Management			TO5M02	5,824	511
Effects of Western Mosquitofish on Aquatic Communities			TO7R01	2,701	1,041
Habitat Development and Management			TO8D01	1,236	500
<i>Total for Program</i>				<u>863,364</u>	<u>481,570</u>
Challenge Cost Share	15.642	DNR	01-CS-11091114-030	6,253	-
Historic Preservation Fund Grants-In-Aid	15.904	DNR			
2003 NPS - HPF Grant			18-03-18214	211,461	181,896
2004 NPS - HPF Grant			18-04-19315	330,762	265,557
Network to Freedom Grant			6059C001	11,685	3,490
<i>Total for Program</i>				<u>553,908</u>	<u>450,943</u>
Outdoor Recreation - Acquisition, Development and Planning	15.916	DNR			
			18-00539	28,412	28,412
			18-00529	49,534	49,534
			18-00525	17,145	17,145
			18-00535	117,970	117,970
			18-00534	84,267	84,267

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF INTERIOR (continued)</u>					
Outdoor Recreation - Acquisition, Development and Planning (continued)			18-00543	78,500	78,500
			18-00531	82,844	82,844
			18-00527	166,392	166,392
			18-00540	37,300	37,300
			18-00521	40,061	40,061
			18-00520	11,087	11,087
			18-00536	31,917	31,917
			18-00545	7,736	7,736
<i>Total for Program</i>				753,165	753,165
Other Assistance					
Support Implementation of Aquatic Invasive Species Plan	15	DNR	301814-G-048	72,023	50,892
Jewish Heritage Sites	15	DNR	P6068030038	4,279	-
<i>Total Other Assistance</i>				76,302	50,892
<i>Total U.S. Department of Interior</i>				18,167,874	3,862,543
<u>U.S. DEPARTMENT OF JUSTICE</u>					
Juvenile Accountability Incentive Block Grants	16.523	ICJI	00JBVX0018	301,359	-
			01JBBX0018	155,735	140,631
			02JBBX0021	2,115,687	1,927,152
			03JBBX0044	1,719,180	1,355,107
<i>Total for Program</i>				4,291,961	3,422,890
Training Grant to Stop Abuse and Sexual Assault of Older Individuals or Individuals with Disabilities	16.528	IDSP	2003-EW-BX-1	2,427	-
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	ICJI			
JJDP Formula Grant			01JFFX0018	(7,281)	-
JJDP Formula Grant			02JFFX0018	72,970	50,181
JJDP Formula Grant			03JFFX0019	999,274	962,623
JJDP Formula Grant			04JFFX0068	233,081	233,081
<i>Total for Program</i>				1,298,044	1,245,885
Missing Children's Assistance	16.543	IDSP	2003-MC-CX-K002	150,510	-
Title V - Delinquency Prevention Program	16.548	ICJI	01-JP-FX-0018	215,796	215,796
Part E - State Challenge Activities	16.549	ICJI			
Juvenile Challenge Grant - 1998			00-JE-FX-0018	340	340
Juvenile Challenge Grant - 2001			03-JE-FX-0023	185,146	185,146
<i>Total for Program</i>				185,486	185,486
National Criminal History Improvement Program	16.554	ICJI			
			00RGCXK006	30,121	30,121
			04RUBXK037	21,954	21,954
<i>Total for Program</i>				52,075	52,075
National Institute of Justice Research, Evaluation, and Development	16.560	IDSP			
Project Grants					
Project Grants			2004-LP-CK-K006	196,749	-
Project Grants			2004-LP-CK-K097	1,041,230	-

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<u>U.S. DEPARTMENT OF JUSTICE (continued)</u>					
National Institute of Justice Research, Evaluation, and Development (continued)					
Project Grants			2004-DN-BX-K123	268,232	-
Project Grants			2004-DN-BX-K052	163,319	-
Project Hoosier Safe-T			2001-LT-BX-K003	576,921	-
<i>Total for Program</i>				<u>2,246,451</u>	<u>-</u>
Crime Victim Assistance	16.575	ICJI	00-VA-GX-0018	1,480	681
			01-VA-GX-0018	70,602	44,002
			02-VA-GX-0018	458,583	162,159
			03-VA-GX-0029	1,255,588	1,200,673
			04-VA-GX-0038	7,257,088	8,368,099
		FSSA	03 JE 002	59,721	-
<i>Total for Program</i>				<u>9,103,062</u>	<u>9,775,614</u>
Crime Victim Compensation	16.576	ICJI	03-VC-GX-0019	831,772	-
			04-VC-GX-0019	522,288	-
<i>Total for Program</i>				<u>1,354,060</u>	<u>-</u>
Byrne Formula Grant Program	16.579	ICJI	99-DB-MU-0018	35,871	-
Drug Control and System Improvement			00-DB-MU-0018	189,405	-
Drug Control and System Improvement			01-DB-BX-0018	657,808	131,890
Drug Control and System Improvement			02-DB-BX-0018	2,326,565	1,604,588
Drug Control and System Improvement			03-DB-BX-0026	5,300,717	5,188,799
Drug Control and System Improvement			04-DB-BX-0018	983,187	983,187
Pass-Through Indiana Housing Finance Authority - Home Grant		ICRC	SR-02-08	105,807	-
<i>Total for Program</i>				<u>9,599,360</u>	<u>7,908,464</u>
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	DOC	96-CV-VX-0018	2,211,777	-
Violence Against Women Formula Grant	16.588	ICJI	02-WFBNX-0052	1	-
			03-WFBNX-0197	483,237	437,899
			04-WFANX-0031	1,742,941	1,742,941
<i>Total for Program</i>				<u>2,226,179</u>	<u>2,180,840</u>
Rural Domestic Violence and Child Victimization Enforcement	16.589	ICJI	03WRBX0034	32,940	32,557
Local Law Enforcement Block Grants Program	16.592	ICJI	99-LB-VX-0325	94	-
			01-LB-BX-0991	18,182	6,988
			02-LB-BX-0453	6,988	82,409
			03-LB-BX-1698	82,409	356,526
			04-LB-BX-0840	356,526	522,840
<i>Total for Program</i>				<u>464,199</u>	<u>968,763</u>
Residential Substance Abuse Treatment for State Prisoners	16.593	ICJI	01-RT-BX-0024	59,221	-
			02-RT-BX-0052	1,043,269	1,043,269
			03-RT-BX-0050	43,844	43,844
<i>Total for Program</i>				<u>1,146,334</u>	<u>1,087,113</u>

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF JUSTICE (continued)</u>					
State Criminal Alien Assistance Program	16.606	DOC	N/A	237,218	-
Bulletproof Vest Partnership Program	16.607	ICJI	N/A	3,946	3,946
Community Prosecution and Project Safe Neighborhoods	16.609	ICJI	03GPCX0528	240,850	236,454
Public Safety Partnership and Community Policing Grants	16.710	IDSP	2002-CK-WX-0171	22,276	-
			2003-CK-WX-0092	996,929	-
			2003-CK-WX-0028	97,332	-
			2002-CK-WX-0053	559,956	-
<i>Total for Program</i>				1,676,493	-
Police Corps	16.712	ICJI	2002-PO-R-039	1,221,173	-
Enforcing Underage Drinking Laws Program	16.727	ICJI	01AHF8-0018	58,205	-
Combating Underage Drinking			02AHF8-0018	179,848	-
Combating Underage Drinking			03AHF8-0051	286,453	200,361
<i>Total for Program</i>				524,506	200,361
Other Assistance	16	IDSP			
Marijuana Eradication			ME 2003-55	3,000	-
Marijuana Eradication			ME 2004-57	665,737	-
Marijuana Eradication			ME 2005-64	83,736	-
<i>Total for Program</i>				752,473	-
National Forensic Science Formula Grant	16	ICJI	03DNBX0043	73,720	73,720
Serious and Violent Offender Reentry Initiative	16	DOC	2002-RE-CX-2	669,379	-
<i>Total Other Assistance</i>				1,495,572	73,720
<i>Total U.S. Department of Justice</i>				39,980,419	27,589,964
<u>U.S. DEPARTMENT OF LABOR</u>					
Employment Services Cluster					
Employment Services	17.207	DWD			
WOTC			ES-12131-02-55	123,544	-
W/P 7B			ES-12131-02-55	16,810	20,000
WOTC			ES-13053-03-55	127,746	-
W/P 7A Employment Service			ES-13053-03-55	6,013,455	3,639
One Stop LMI			ES-13053-03-55	573	-
W/P 7B			ES-13053-03-55	1,199,160	-
ES Reemployment			ES-13053-03-55	53,838	-
W/P 7A Employment Service			ES-13053-03-55	6,079,633	495,396
One Stop LMI			ES-13053-03-55	549,430	-
W/P 7B			ES-13053-03-55	57,277	7,199
ES Reemployment			ES-13053-03-55	701,569	-
<i>Total for Program</i>				14,923,035	526,234
Disabled Veterans' Outreach Program	17.801	DWD	E9545064	404,201	1,964
			E9550064	1,078,195	32,391
<i>Total for Program</i>				1,482,396	34,355

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<u>U.S. DEPARTMENT OF LABOR (continued)</u>					
Local Veterans Employment Representative Program	17.804	DWD	E-9545064 E-9550064	516,496 <u>1,473,058</u>	9,215 <u>56,953</u>
<i>Total for Program</i>				<u>1,989,554</u>	<u>66,168</u>
<i>Total for Cluster</i>				<u>18,394,985</u>	<u>626,757</u>
WIA Cluster					
WIA Adult Program	17.258	DWD			
WIA ADM STAT AC			AA-11250--01-50	11,724	11,724
WIA Administration			AA-11250--01-50	24,401	-
WIA Program Supplement			AA-11250--01-50	188,345	189,010
WIA ADM STAT AC			AA-12009-02-50	(1,573)	(1,573)
WIA Administration			AA-12009-02-50	24,567	-
WIA Program Supplement			AA-12009-02-50	318,499	264,509
WIA Administration			AA-12924-03-50	319,929	319,928
Adult WIA			AA-12924-03-50	1,905,137	1,905,137
WIA ADM STAT AC			AA-12924-03-50	10,319	10,319
WIA Administration			AA-12924-03-50	355,041	-
WIA Program Supplement			AA-12924-03-50	353,186	308,370
WIA Administration			AA-13797-04-50	660,786	660,786
Adult WIA			AA-13797-04-50	8,925,550	8,925,550
WIA ADM STAT AC			AA-13797-04-50	10,975	10,975
WIA Administration			AA-13797-04-50	14,623	-
WIA Program Supplement			AA-13797-04-50	<u>368,194</u>	<u>331,438</u>
<i>Total for Program</i>				<u>13,489,703</u>	<u>12,936,173</u>
WIA Youth Activities	17.259	DWD			
WIA ADM STAT AC			AA-11250--01-50	14,656	14,656
WIA Administration			AA-11250--01-50	30,501	-
WIA Program Supplement			AA-11250--01-50	235,431	236,263
WIA ADM STAT AC			AA-12009-02-50	(2,214)	(2,214)
WIA Administration			AA-12009-02-50	34,575	-
WIA Program Supplement			AA-12009-02-50	448,258	372,272
WIA Administration			AA-12924-03-50	418,368	418,368
WIA Youth			AA-12924-03-50	3,255,474	3,255,474
WIA ADM STAT AC			AA-12924-03-50	13,495	13,495
WIA Administration			AA-12924-03-50	464,285	-
WIA Program Supplement			AA-12924-03-50	461,859	403,253
WIA Administration			AA-13797-04-50	774,715	774,715
WIA Youth			AA-13797-04-50	9,324,895	9,324,895
WIA ADM STAT AC			AA-13797-04-50	12,867	12,867
WIA Administration			AA-13797-04-50	17,145	-
WIA Program Supplement			AA-13797-04-50	<u>431,676</u>	<u>388,582</u>
<i>Total for Program</i>				<u>15,935,986</u>	<u>15,212,626</u>
WIA Dislocated Workers	17.260	DWD			
Rapid Response W			AA-11250--01-50	79,051	79,051
WIA ADM STAT AC			AA-11250--01-50	10,258	10,258
WIA Administration			AA-11250--01-50	21,351	-
WIA Rapid Response			AA-11250--01-50	7,950	-
WIA Program Supplement			AA-11250--01-50	164,802	165,384
Rapid Response W			AA-12009-02-50	47,049	47,049
WIA ADM STAT AC			AA-12009-02-50	(2,039)	(2,039)
WIA Administration			AA-12009-02-50	31,846	-
WIA Rapid Response			AA-12009-02-50	84,033	-
WIA Program Supplement			AA-12009-02-50	<u>412,870</u>	<u>342,882</u>

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<u>U.S. DEPARTMENT OF LABOR (continued)</u>					
WIA Cluster (continued)					
WIA Dislocated Workers (continued)					
Tornadoes Disaster			EM-11649-02-60	(860)	-
Air National RE			EM-11649-02-60	(1,126)	65
NW Steel & Manu			EM-11649-02-60	55,719	55,481
WIA Administration			AA-12924-03-50	492,198	492,198
Adult Dislocated Worker W			AA-12924-03-50	1,998,111	1,998,111
Rapid Response W			AA-12924-03-50	957,314	957,314
WIA ADM STAT AC			AA-12924-03-50	15,876	15,876
WIA Administration			AA-12924-03-50	546,217	-
WIA Rapid Response			AA-12924-03-50	89,551	-
WIA Program Supplement			AA-12924-03-50	543,363	474,415
WIA Administration			AA-13797-04-50	843,072	843,072
Adult Dislocated Worker W			AA-13797-04-50	7,378,893	7,378,893
Rapid Response W			AA-13797-04-50	1,340,696	1,340,696
WIA ADM STAT AC			AA-13797-04-50	14,002	14,002
WIA Administration			AA-13797-04-50	18,658	-
WIA Rapid Response			AA-13797-04-50	223,273	-
WIA Program Supplement			AA-13797-04-50	469,765	422,869
WIA Neg Award			EH-14175-04-55	1,510,823	1,510,823
<i>Total for Program</i>				<u>17,352,716</u>	<u>16,146,400</u>
<i>Total for Cluster</i>				<u>46,778,405</u>	<u>44,295,199</u>
Labor Force Statistics	17.002	DWD			
BLS-CES			W9J480184	130,403	-
BLS-LAUS			W9J480184	45,726	-
BLS-OES			W9J480184	96,576	-
ES 202			W9J480184	74,296	-
BLS-MLS			W9J480184	18,669	-
AAMC-LAUS			W9J480184	5,000	-
BLS-CES			W9J580185	324,656	-
BLS-LAUS			W9J580185	82,179	-
BLS-OES			W9J580185	316,081	-
ES 202			W9J580185	345,326	-
BLS-MLS			W9J580185	44,022	-
<i>Total for Program</i>				<u>1,482,934</u>	<u>-</u>
Compensation and Working Conditions	17.005	DOL	E9J48118	12,143	-
			E9J58118	53,172	-
<i>Total for Program</i>				<u>65,315</u>	<u>-</u>
Labor Certification for Alien Workers	17.203	DWD			
Alien Labor Certification			ES-13053-03-55	5,645	-
Alien Labor Certification			ES-13995-04-55	80,000	-
<i>Total for Program</i>				<u>85,645</u>	<u>-</u>
Unemployment Insurance	17.225	DWD			
State Unemployment Benefits			N/A	678,751,247	-
FECA-UCFE, UCPE, and UCS			N/A	12,652,917	-
UI Crossmatch			UI-12637-03-55	60,590	819,860
UI Operations			UI-13546-04-55	12,129,627	-
UI Teuc			UI-13546-04-55	19,034	-
UI Operations			UI-14433-05-55	26,608,871	365,794
UI REA Grant			UI-14433-05-55	142,701	-
<i>Total for Program</i>				<u>730,364,987</u>	<u>1,185,654</u>

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF LABOR (continued)</u>					
Senior Community Service Employment Program	17.235	FSSA			
			AD 13152 KPO	291,634	-
			AD 14084 NBO	1,787,581	-
<i>Total for Program</i>				2,079,215	-
Trade Adjustment Assistance - Workers	17.245	DWD			
Trade Adjustment Assistance			TA-12690-03-55	126,010	-
Trade Adjustment Assistance			TA-13493-04-55	3,411,106	-
Trade Adjustment Assistance			TA-14378-05-55	5,420,711	-
NAFTA Trade Benefits			UI-13546-04-55	43,802	-
NAFTA Trade Act			TA-12690-03-55	99,194	-
NAFTA Trade Act			TA-13493-04-55	165,805	-
FUBA			UI-13546-04-55	5,482,952	-
FUBA			UI-14433-05-55	20,536,678	-
ALT Trade Wage			UI-13546-04-55	194,707	-
ALT Trade Wage			UI-14433-05-55	251,498	-
<i>Total for Program</i>				35,732,463	-
Employment Services and Job Training Pilot - Demonstration and Research Programs	17.249				
Youth Offender Demonstration Grant		DOC	F7453-6-00-80-60	29,244	-
Welfare-to-Work Grants to States and Localities	17.253	DWD			
WTW Req Benefits-7			Y-6654-8-00-81-50	(5,477)	(5,477)
WTW Req Benefits-7			Y-7415-9-00-81-50	(12,360)	(12,773)
<i>Total for Program</i>				(17,837)	(18,250)
One-Stop Career Center Initiative	17.257	DWD			
WIA Incentive			IG-11709-01-55	(12,217)	(12,217)
Employment and Training Admin. Pilots, Demonstrations and Research	17.261	DWD	AK-12252-02-60	58,636	-
Work Incentive Grants	17.266	DWD	N/A	2,448	-
WIA Incentive Grants Sec. 503	17.267	DWD	IG-12356-02-60	348,781	152,283
Occupational Safety and Health State Program	17.503	DOL			
			60F4-0051	496,136	-
			60F5-0051	1,331,434	-
<i>Total for Program</i>				1,827,570	-
Consultation Agreements	17.504	DOL			
Occupational Safety and Health Program OSHA Consult			E9F4-0951	121,119	-
Occupational Safety and Health Program OSHA Consult			E9F5-0951	471,846	-
Occupational Safety and Health Program OSHA Survey			E9F4-3751	22,439	-
Occupational Safety and Health Program OSHA Survey			E9F5-3751	22,932	-
<i>Total for Program</i>				638,336	-
Veterans' Employment Program	17.802	DWD			
			E-9-5-2-0018	50,973	49,030
			E-9-5-2-0018	384,085	378,053
			E-9-5-5-0001	100,000	98,000
<i>Total for Program</i>				535,058	525,083

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF LABOR (continued)</u>					
Other Assistance Veterans	17	DWD	920495	136	-
<i>Total Other Assistance</i>				136	-
<i>Total U.S. Department of Labor</i>				838,394,104	46,754,509
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>					
Highway Planning and Construction Cluster Highway Planning and Construction Highway Planning and Construction	20.205	INDOT	N/A	603,122,658	-
<i>Total for Program and Cluster</i>				603,122,658	-
Highway Safety Cluster State and Community Highway Safety NHTSA Section 402 Crash Data Outcome Evaluation	20.600	ICJI SEMA	N/A DTNH22-02-H-17270	2,436,587 74,743	2,436,587 -
<i>Total for Program</i>				2,511,330	2,436,587
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	ICJI	N/A	831,916	831,916
Occupant Protection	20.602	ICJI	N/A	1,109,999	1,109,999
Safety Incentive Grants for Use of Seatbelts	20.604	ICJI	N/A	1,840,285	1,840,285
<i>Total for Cluster</i>				6,293,530	6,218,787
Boating Safety Financial Assistance	20.005	DNR	14.01.18 15.01.18	612,833 94,587	- -
<i>Total for Program</i>				707,420	-
Airport Improvement Program	20.106	INDOT	3-18-000-002	72,579	-
National Motor Carrier Safety New Entrant Program New Entrant Program Motor Carrier Assistance Motor Carrier Assistance Performance and Registration Performance and Registration	20.218	IDSP IDSP IDSP IDSP IDOR IDOR	HN-04-18-1 HN-05-18-1 MC-04-18-001 MC-05-18-001 PZIN021 MC-01-18-444	512,676 109,583 3,791,885 1,572,365 13,739 88,356	- - - - - -
<i>Total for Program</i>				6,088,604	-
Recreation Trails Program	20.219	DNR	2000(010) 1999002 2000-03 2000008 2000005 2000(013) NRT(001) NRT(006) 2000(011) NRT2(001) 1998003	119,456 100,000 87,100 174,200 4,355 108,857 36,452 78,018 10,325 300,000 71,838	119,456 100,000 87,100 174,200 4,355 108,857 36,452 78,018 10,325 300,000 71,838

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF TRANSPORTATION (continued)</u>					
Recreation Trails Program (continued)					
			1998003	27,691	27,691
			NRT(003)	13,421	13,421
			NRT(004)	150,000	150,000
			2003(012)	119,841	119,841
			2003(011)	119,429	119,429
			2000(012)	54,629	54,629
<i>Total for Program</i>				<u>1,575,612</u>	<u>1,575,612</u>
Federal Transit - Metropolitan Planning Grants	20.505	INDOT	80-2009	46,970	12,281
			80-2010	34,312	-
			80-2011	284,429	218,941
			80-2012	356,998	340,367
			80-2013	307,050	307,050
<i>Total for Program</i>				<u>1,029,759</u>	<u>878,639</u>
Formula Grants for Other Than Urbanized Areas	20.509	INDOT	IN-18-X019	1,914	1,914
			IN-18-X020	121,601	121,388
			IN-18-X021	845,925	878,913
			IN-18-X022	4,396,832	4,257,646
			IN-18-X023	1,368,512	1,317,448
<i>Total for Program</i>				<u>6,734,784</u>	<u>6,577,309</u>
Capital Assistance Program for Elderly Persons and Persons With Disabilities	20.513	INDOT	16-0025	8,891	-
			16-0027	275	-
			16-0028	11,301	2,312
			16-0029	56,825	43,699
			16-0030	1,646,468	1,636,524
			03-0109	683,462	683,462
<i>Total for Program</i>				<u>2,407,222</u>	<u>2,365,997</u>
Pipeline Safety	20.700	IURC	RDPS0104G40012	28,714	28,714
Interagency Hazardous Material Public Sector Training and Planning Grants	20.703	SEMA			
			N/A	267,327	-
			N/A	21,572	-
<i>Total for Program</i>				<u>288,899</u>	<u>-</u>
Other Assistance					
Open Container	20	ICJI	N/A	11,151,460	11,151,460
Child Passenger Safety	20	ICJI	N/A	125,865	125,865
Fatal Accident Reporting System	20	IDSP	DTNH22-92-Y-07028	71,542	-
<i>Total Other Assistance</i>				<u>11,348,867</u>	<u>11,277,325</u>
<i>Total U.S. Department of Transportation</i>				<u>639,698,648</u>	<u>28,922,383</u>

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF THE TREASURY</u>					
Other Assistance					
Jobs Growth and Tax Relief Reconciliation Act of 2003	21	SBA	N/A	103,384,091	-
<i>Total U.S. Department of the Treasury</i>				103,384,091	-
<u>GENERAL SERVICES ADMINISTRATION</u>					
Donation of Federal Surplus Personal Property	39.003	IDOA	N/A	1,769,412	441,879
Election Reform Payments	39.011	SOS			
HAVA Early Payments			369940/371752	1,739,435	1,254,426
HAVA Requirements Payments			412089	16,098,189	9,730,132
<i>Total for Program</i>				17,837,624	10,984,558
<i>Total General Services Administration</i>				19,607,036	11,426,437
<u>NATIONAL ENDOWMENT FOR THE ARTS AND HUMANITIES</u>					
Promotion of the Arts - Partnership Agreements	45.025	IAC			
Basic State Grant			03-6100-2036	104,362	61,448
Basic State Grant			04-6100-2042	223,007	49,513
Arts In Education			04-6100-2042	40,000	40,000
Underserved			04-6100-2042	52,500	52,500
Challenge America			04-6100-2042	124,000	124,000
<i>Total for Program</i>				543,869	327,461
State Library Program	45.310	ISL	LS-00030015-03	126,362	126,362
LSTA Grant - 2003			LS-00040015-04	1,937,511	1,891,012
LSTA Grant - 2004			LS-00040015-05	120,946	99,962
<i>Total for Program</i>				2,184,819	2,117,336
<i>Total National Foundation on the Arts and the Humanities</i>				2,728,688	2,444,797
<u>U.S. DEPARTMENT OF VETERANS AFFAIRS</u>					
Veterans State Domiciliary Care	64.014	IVA	N/A	189,711	-
Veterans State Nursing Home Care	64.015	IVA	N/A	4,855,687	-
All-Volunteer Force Educational Assistance	64.124				
Veteran Education		IDVA	V101 (223B) P4417	49,918	-
Veteran Education		IDVA	V101 (223B) P4517	134,690	-
Veteran Education		ICPE	V101 (223B) P4473	83,391	5,796
Veteran Education		ICPE	V101 (223B) P4573	113,750	-
<i>Total for Program</i>				381,749	5,796
<i>Total U.S. Department of Veterans Affairs</i>				5,427,147	5,796
<u>ENVIRONMENTAL PROTECTION AGENCY</u>					
State Indoor Radon Grant	66.032	IDEM	K1965129-01	5,916	-
State Underground Water Source Protection	66.433	DNR			
Underground Injection Control Program			G995901-04	30,075	-
Underground Injection Control Program			G995901-05	87,900	-
<i>Total for Program</i>				117,975	-

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ENVIRONMENTAL PROTECTION AGENCY (continued)					
Water Quality Management Planning	66.454	IDEM			
Water Quality Management 205(j)(1)			C6975496-01	33	-
Water Quality Management 205(j)(1)			C6975750-01	82,742	-
Water Quality Management 205(j)(1)			C6975750-02	141,000	-
Water Quality Management 205(j)(1)			C6975750-03	67,860	-
Water Quality Management 205(j)(1)			C6975750-04	12,142	-
<i>Total for Program</i>				<u>303,777</u>	-
Capitalization Grants for State Revolving Funds	66.458				
Revolving Loan Fund		SBA	CS180001-05	25,969,581	-
Nonpoint Source Implementation Grants	66.460	IDEM			
319 NPS Surface Water			C9995008-99	26,217	-
319 NPS Surface Water			C9995008-00	21,587	-
319 NPS Surface Water			C9975482-01	292,452	-
319 NPS Surface Water			C9975482-02	865,055	-
319 NPS Surface Water			C9975482-04	800,866	-
319 NPS Surface Water			C9975482-03	1,035,445	-
319 NPS Surface Water			C9975482-05	54,838	-
319 NPS Groundwater			C9975482-03	(45,339)	-
319 NPS Groundwater			C9975482-04	106,876	-
319 NPS Groundwater			C9975482-05	2,919	-
<i>Total for Program</i>				<u>3,160,916</u>	-
Regional Wetland Program Development Grants	66.461	IDEM			
Wetlands			CD005518-01	1,733	-
Wetlands			CD975308-01	7,208	-
Wetlands Floristic			CD975586-01	22,767	-
<i>Total for Program</i>				<u>31,708</u>	-
Water Quality Cooperative Agreements	66.463	IDEM			
Watershed			CP975291-01	4,007	-
Watershed			CP975649-01	5,676	-
Watershed			CP975773-01	62,548	-
Watershed			CP965041-01	64,920	-
Watershed			CP965466-01	6,331	-
Watershed			X7965099-01	34,547	-
<i>Total for Program</i>				<u>178,029</u>	-
Capitalization Grants for Drinking Water State Revolving Fund	66.468				
		SBA	FS985655-98	409,512	-
		SBA	FS975486-02	103,053	-
		SBA	FS975486-03	177,177	-
		SBA	FS975486-05	8,744,978	-
Drinking Water SRF - Administration		IDEM	FS985655-98	146,960	-
Drinking Water SRF - Source Water		IDEM	FS985655-98	227,348	-
Drinking Water SRF - Technical Assistance		IDEM	FS985655-98	35,204	-
Drinking Water SRF - Technical Assistance		IDEM	FS975486-02	28,270	-
Drinking Water SRF - PWSS		IDEM	FS975486-02	70,973	-
Drinking Water SRF - Technical Assistance		IDEM	FS975486-03	14,880	-
Drinking Water SRF - PWSS		IDEM	FS975486-03	162,297	-
<i>Total for Program</i>				<u>10,120,652</u>	-

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<u>ENVIRONMENTAL PROTECTION AGENCY (continued)</u>					
Great Lakes Program	66.469	DNR	GL-97558301	19,353	-
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	IDEM	CT965138-01	116,548	-
Beach Monitoring & Notification Program Implementation Grants	66.472	IDEM	CU975678-01	110,749	-
			CU965109-01	118,143	-
			CU965643-01	1,678	-
<i>Total for Program</i>				230,570	-
Water Protection Grants - Counter Terrorism	66.474	IDEM	WP975634-01	141,700	-
			X975889-01	29,205	-
<i>Total for Program</i>				170,905	-
Environmental Protection Consolidated Research	66.500	IDEM	BW965172-01	212,831	-
Performance Partnership Grants	66.605	IDEM			
			BG985432-04	13,389	-
			BG985432-04	100,426	-
			BG985432-04	3,503	-
			BG985432-04	22,265	-
			BG985432-04	81,427	-
			BG985432-04	460,739	-
			BG985432-04	673,671	-
			BG985432-04	276,077	-
			BG985432-05	1,310,656	-
			BG985432-05	98,835	-
			BG985432-05	1,990,762	-
			BG985432-05	2,148,733	-
			BG985432-05	1,827,714	-
			BG985432-05	170,118	-
			BG985432-05	13,055	-
			BG985432-05	5,954	-
<i>Total for Program</i>				9,197,324	-
Surveys, Studies, Investigations and Special Purpose Grants Lakewide Management Plan Local Data Improvement Ambient Air Monitoring Auto Salvage Adv. Truck Stop Electrification	66.606	IDEM			
			GL965217-01	28,579	-
			X985520-04	2,935	-
			PM985773-02	706,690	-
			X975270-01	11,737	-
			X985926-01	148	-
<i>Total for Program</i>				750,089	-
Training and Fellowships for the Environmental Protection Agency Outreach Operator Training Outreach Operator Training Outreach Operator Training	66.607	IDEM			
			T975633-01	4,417	-
			T985627-01	5,110	-
			T985627-01	11,029	-
<i>Total for Program</i>				20,556	-
Environmental Information Exchange Network	66.608	IDEM	OS985886-01	357,755	-

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
ENVIRONMENTAL PROTECTION AGENCY (continued)					
Protection of Children and Older Adults from Environmental Health Risks	66.609	ISDOH	CH-915956601-0	28,522	28,522
Environmental Policy and Innovation Grants	66.611	IDEM	P1965680-01	2,578	-
TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	66.707	IDEM			
HUD Lead			PB985526-02	4,273	-
Lead-Based Paints			PB985526-03	26,059	-
Lead-Based Paints			PB985526-04	106,665	-
Lead-Based Paints			PB985526-05	78,776	-
<i>Total for Program</i>				215,773	-
Pollution Prevention Grants Program	66.708	IDEM			
Mercury Reduction			NP965037-01	22,365	-
Regulatory Integration of Pollution			CX826974-01	11,641	-
Pollution Prevention			NP985074-03	17,863	-
Pollution Prevention			NP985074-04	4,205	-
<i>Total for Program</i>				56,074	-
Capacity Building Grants and Cooperative Agreements	66.709	IDEM			
Aerial Flyover			EA965310-01	(671)	-
Combined Sewer Overflow			EA965374-01	5,370	-
<i>Total for Program</i>				4,699	-
Superfund State Site - Specific Cooperative Agreements	66.802	IDEM			
RCRA 3012 Program			V005849-01	861,544	-
RCRA 3012 Program			V005849-02	93,605	-
Ninth Avenue Dump			V005995-01	19,791	-
Ninth Avenue Dump			V005995-02	2,576	-
Elkhart Main Street Well Field-West			V005995-02	1,531	-
Elkhart Main Street Well Field-East			V005995-02	612	-
Core Superfund			V005990-01	189,393	-
Core Superfund			V005990-02	191,384	-
Galen Myers Remedial Action			V985768-01	16,466	-
Continental Steel - remedial action			V985768-01	109,650	-
Continental Steel - remedial design			V985768-01	140,504	-
Continental Steel			V005072-01	(278,977)	-
Continental Steel- non time critical			V005072-01	664,905	-
Waste			V005995-02	3,550	-
Conrail Yard Site			V005899-02	8,390	-
Third Site			V005899-01	8,261	-
Third Site			V965003-01	4,588	-
Prestolite Battery			V005899-01	6,653	-
Prestolite Battery			V965003-01	12,404	-
Himco Dump			V965003-01	7,836	-
International Minerals & Chem			V005899-01	17,582	-
International Minerals & Chem			V965003-01	14,587	-
American Chemical Services			V965003-01	13,617	-
Douglas Road Landfill			V965003-01	866	-
Lemon Lane			V965003-01	19,489	-
Illinois Central Springs			V965478-01	44,460	-
Lakeland Disposal			V005995-01	(15,858)	-
Lakeland Disposal			V005995-02	17,572	-
Neal's Landfill			V965003-01	12,000	-

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Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
ENVIRONMENTAL PROTECTION AGENCY (continued)					
Superfund State Site - Specific Cooperative Agreements (continued)					
Bennet Stone			V005899-01	5,511	-
Bennet Stone			V965003-01	9,530	-
Cam-Or			V005899-01	11,369	-
Cam-Or			V965003-01	8,120	-
Little Mississinewa			V965003-01	5,922	-
Jacobsville			V965003-01	6,943	-
<i>Total for Program</i>				<u>2,236,376</u>	<u>-</u>
Leaking Underground Storage Tank Trust Fund Program	66.805	IDEM			
Leaking Underground Storage Tank			LS005981-14	267,983	-
Leaking Underground Storage Tank			LS005981-13	911,019	-
UST pilot - Indianapolis			LP975969-01	59,909	-
UST pilot - South Bend			LP975969-01	16,699	-
<i>Total for Program</i>				<u>1,255,610</u>	<u>-</u>
State and Tribal Response	66.817	IDEM	RP965078-01	247,990	-
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	IDEM	BL985740-01	244,704	-
<i>Total Environmental Protection Agency</i>				<u>55,256,811</u>	<u>28,522</u>
U.S. DEPARTMENT OF ENERGY					
State Energy Program	81.041	COM			
State Energy Program			DE-FG45-02R530542	2,307,672	910,648
Weatherization Assistance for Low-Income Persons	81.042	FSSA			
			R530350	6,064,884	-
			R530679/5	546,847	-
<i>Total for Program</i>				<u>6,611,731</u>	<u>-</u>
NICE3-Hot Eye In-Process Steel Quality	81.105	COM	DE-FG45-02R530540	5,636	5,636
State Energy Program Special Projects	81.119	COM			
Fair Oaks Manure Digestion System			DE-FG45-02R530590	95,723	95,723
Alternative Fuel Program			DE-FG45-01R530487	57	-
Research, Development and Demo. Of Switched Reluctance			DE-FC36-02GO12020	137,748	137,748
Clean Cities Regional Support - Central Indiana			DE-FG45-03R530666	20,000	20,000
Energy Information Administration			DE-FC01-96E129058	3,264	-
Indiana Industries of the Future			DE-FC45-02R530565	5,549	5,549
Clean Cities Regional Coord. Meeting			DE-FG45-03R530627	23,125	23,125
Northwest IN 3-85 Transportation - Codes and Standards			DE-FG45-01R530490	29,116	29,116
Indiana Industries of the Future			DE-FG45-03R530650	65,565	65,565
Northwest IN 3-85 Transportation - Codes and Standards			DE-FG45-01R530491	20,893	18,051
Energy Code Training Program			DE-FC45-00R530452	79,010	79,010
Tall Tower Wind Study			DE-FG45-02R530583	1,375	1,375
Coalition Support - South Shore Clean Cities			DE-FG45-03R530665	14,975	14,975
<i>Total for Program</i>				<u>496,400</u>	<u>490,237</u>
Other Assistance					
Petroleum Violation Escrow Funds	81	COM			
Stripper Well			N/A	640,508	-
Exxon - New Energy			N/A	8,039	-
<i>Total for Program</i>				<u>648,547</u>	<u>-</u>

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<u>U.S. DEPARTMENT OF ENERGY (continued)</u>					
Other Assistance (continued)					
IPALCO Settlement Funds	81	COM	N/A	250,000	-
Council of State Governments Cooper Sub Grant Agreement	81	SEMA	CSGMW-RM-IN-03-01	(282)	-
<i>Total Other Assistance</i>				898,265	-
<i>Total U.S. Department of Energy</i>				10,319,704	1,406,521
<u>U.S. DEPARTMENT OF EDUCATION</u>					
Special Education Cluster					
Special Education - Grants to States	84.027	IDOE	H027A010084	(5,853)	(5,853)
			H027A020084	1,614,914	1,614,914
			H027A030084	36,475,215	36,009,493
			H027A040084	177,138,067	175,594,191
<i>Total for Program</i>				215,222,343	213,212,745
Special Education - Preschool Grants	84.173	IDOE	H173A020104	(742)	(742)
			H173A030104	650,133	650,133
			H173A040104	8,071,477	8,071,477
<i>Total for Program</i>				8,720,868	8,720,868
<i>Total for Cluster</i>				223,943,211	221,933,613
Adult Education - State Grant Program	84.002	IDOE	V002A000015	35,516	35,516
			V002A010014	97,665	97,665
			V002A020014	136,818	136,818
			V002A030014	441,718	441,718
			V002A040014	9,183,518	8,772,222
<i>Total for Program</i>				9,895,235	9,483,939
Title 1 Grants to Local Educational Agencies	84.010	IDOE	S010A000014	(47,046)	-
			S010A010014	17,678	-
			S010A020014	158,076	-
			S010A030014	23,710,343	22,992,271
			S010A040014	145,289,220	145,289,220
<i>Total for Program</i>				169,128,271	168,281,491
Migrant Education - Basic State Grant Program	84.011	IDOE	S011A990014	2,801	-
			S011A020014	482,963	-
			S011A030014	3,039,295	2,111,318
<i>Total for Program</i>				3,525,059	2,111,318
Title 1 Program for Neglected and Delinquent Children	84.013	IDOE	S013A020014	50,624	50,624
			S013A030014	345,132	345,132
			S013A040014	1,131,409	1,131,409
<i>Total for Program</i>				1,527,165	1,527,165
Vocational Education - Basic Grants to States	84.048	DWD			
State Leadership			VO48A020014A	848,290	868,227
State Leadership			VO48A030014A	1,170,632	875,846
CP SECONDARY B/			VO48A030014A	4,115,502	4,115,502

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<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>					
Vocational Education - Basic Grants to States (continued)					
POST 2ND VOC E			VO48A030014A	2,635,652	2,635,652
COMM TECH ED			VO48A040014A	134,858	-
State Leadership			VO48A040014A	1,032,216	969,501
CP SECONDARY B/ POST 2ND VOC E			VO48A040014A	11,049,641	11,049,640
			VO48A040014A	6,889,904	6,889,903
<i>Total for Program</i>				<u>27,876,695</u>	<u>27,404,271</u>
Pass-Through Indiana Chamber of Commerce Vocational Education - National Programs	84.051	CHE	V051U0Z001	110,908	110,908
<i>Total Pass-Through</i>				<u>110,908</u>	<u>110,908</u>
Leveraging Education Assistance Partnership Special Leveraging Education Assistance Partnership	84.069	SSACI	P069B040008	990,738	-
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	FSSA	H126A050019	36,798,797	-
			H126A040019	22,154,737	-
<i>Total for Program</i>				<u>58,953,534</u>	<u>41,504,354</u>
Rehabilitation Services - Client Assistance Program	84.161	IPAS	H161A040015	101,558	-
			H161A040015	171,078	-
<i>Total for Program</i>				<u>272,636</u>	<u>-</u>
Independent Living - State Grants	84.169	FSSA	H 169A 050020	58,377	-
			H 169A 040020	346,451	-
			H 169A 030020	142,267	-
<i>Total for Program</i>				<u>547,095</u>	<u>-</u>
Rehabilitation Services - Independent Living Services	84.177	FSSA	H177B040014	179,654	-
			H177B030014	127,294	-
<i>Total for Program</i>				<u>306,948</u>	<u>286,397</u>
Special Education - Grants for Infants and Families With Disabilities First Steps Program	84.181	FSSA	H181A030030	8,491,642	-
			H181A020030	58,046	-
<i>Total for Program</i>				<u>8,549,688</u>	<u>-</u>
Safe and Drug Free Schools and Communities - National Programs	84.184	IDOE	S184C020015	271,802	209,309
			S184C020015	513,471	513,471
<i>Total for Program</i>				<u>785,273</u>	<u>722,780</u>
Byrd Honors Scholarships	84.185	IDOE	P185A030015	562,500	562,500
			P185A040015	339,000	339,000
<i>Total for Program</i>				<u>901,500</u>	<u>901,500</u>
Safe and Drug Free Schools and Communities - State Grants	84.186	FSSA	S186040015	825,999	-
		FSSA	S186030015	637,715	-
		IDOE	S186A000015	8,373	8,373

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<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>					
Safe and Drug Free Schools and Communities - State Grants (continued)					
		IDOE	S186A010015	(18,523)	(18,523)
		IDOE	S186A020015	25,926	3,991
		IDOE	S186A030015	3,892,617	3,603,470
		IDOE	S186A040015	1,602,265	1,602,265
<i>Total for Program</i>				<u>6,974,372</u>	<u>5,199,576</u>
Supported Employment Services for Individuals With Severe Disabilities	84.187	FSSA	H187A050020	713,248	713,248
			H187A040020	1,614	1,614
<i>Total for Program</i>				<u>714,862</u>	<u>714,862</u>
Education for Homeless Children	84.196	IDOE	S196A020015	98,810	2,315
			S196A030015	115,240	115,240
			S196A040015	548,594	548,594
<i>Total for Program</i>				<u>762,644</u>	<u>666,149</u>
Javits Gifted and Talented Students Education	84.206	IDOE	S206A020001	139,345	139,345
Even Start - State Educational Agencies	84.213	IDOE	S213A030015	215,004	122,571
			S213A040015	2,742,588	2,742,588
<i>Total for Program</i>				<u>2,957,592</u>	<u>2,865,159</u>
Assistive Technology	84.224	FSSA	H224A900027	535,146	530,544
Program of Protection and Advocacy of Individual Rights	84.240	IPAS	H240A040015E	259,718	-
			H240A040015E	55,173	-
<i>Total for Program</i>				<u>314,891</u>	<u>-</u>
Tech-Prep Education	84.243	DWD			
COM TECH ED-PRE 2002			V243A020014	581,616	529,859
COM TECH ED-PRE 2003			V243A030014	1,107,958	993,007
COM TECH ED-PRE 2003			V243A040014	759,101	705,286
<i>Total for Program</i>				<u>2,448,675</u>	<u>2,228,152</u>
Rehabilitation Services American Indians with Disabilities	84.250	IDOE	S250B010069	345,403	331,619
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	FSSA	H 265A 00 0040	61,467	-
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	IDOE	S276A990014	203	-
			S276A000014	38,030	(127,850)
<i>Total for Program</i>				<u>38,233</u>	<u>(127,850)</u>
Eisenhower Professional Development State Grants	84.281	IDOE			
State Grant 2002			S281A010014	(32,951)	(32,951)
Standard, Assessment and Accountability			S281C010014	4,678	-
<i>Total for Program</i>				<u>(28,273)</u>	<u>(32,951)</u>
Charter Schools	84.282	IDOE	S282A010058	3,427,178	3,362,916

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<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>					
Twenty-First Century Community Learning Centers	84.287	IDOE	S287C030014 S287C040014	2,716,436 4,752,365	2,409,381 4,704,329
<i>Total for Program</i>				<u>7,468,801</u>	<u>7,113,710</u>
State Grants for Innovative Programs	84.298	IDOE	S298A000014 S298A010014 S298A020014 S298A030014 S298A040014	(1,948) 39,873 556,067 5,345,135 1,363,123	(1,948) 39,873 315,767 4,629,615 1,363,123
<i>Total for Program</i>				<u>7,302,250</u>	<u>6,346,430</u>
Education Technology State Grants	84.318	IDOE	S318X010014 S318X020014 S318X030014 S318X040014	(69,418) 338,263 6,207,847 1,255,307	(69,418) 43,269 6,207,847 1,255,307
<i>Total for Program</i>				<u>7,731,999</u>	<u>7,437,005</u>
Special Education - State Program Improvement Grants	84.323	IDOE	H323A030003	<u>384,824</u>	<u>384,824</u>
Special Education - Technical Assistance and Dissemination	84.326	IDOE	H326X030005	<u>158,900</u>	<u>-</u>
Advanced Placement Incentive Program	84.330	IDOE	S330A000034-0	<u>66,936</u>	<u>-</u>
Grants to States for Incarcerated Youth Offenders	84.331	DOC	V331A000011	<u>445,439</u>	<u>-</u>
Comprehensive School Reform Demonstration	84.332	IDOE	S332A020014 S332A030014 S332A040014	394,123 5,095,129 755,359	329,275 5,095,139 755,359
<i>Total for Program</i>				<u>6,244,611</u>	<u>6,179,773</u>
Gaining Early Awareness and Readiness for Undergraduate Programs Gear-Up	84.334	SSACI	P334A990352 P334A990352	3,091,604 3,225,304	- -
<i>Total for Program</i>				<u>6,316,908</u>	<u>-</u>
Reading Excellence	84.338	IDOE	S338A010016	<u>(36,134)</u>	<u>(69,516)</u>
Assistive Technology - State Grants for Protection and Advocacy	84.343	IPAS	G993298 G993290 H343A030015 H343A040015 H343A050015	23,751 5,156 3,664 71,975 14,715	- - - - -
<i>Total for Program</i>				<u>119,261</u>	<u>-</u>
Occupational and Employment Information State Grants Career Resource 2003 Career Resource 2004	84.346	DWD	V346A000018 V346A000018	21,084 155,366	- 141,242
<i>Total for Program</i>				<u>176,450</u>	<u>141,242</u>
Reading First	84.357	IDOE	S357A020015 S357A020015	2,579,692 10,597,168	2,345,736 9,376,582
<i>Total for Program</i>				<u>13,176,860</u>	<u>11,722,318</u>

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<u>U.S. DEPARTMENT OF EDUCATION (continued)</u>					
Rural Education	84.358	IDOE	S358B020014 S358B030014	837 20,326	837 20,326
<i>Total for Program</i>				21,163	21,163
Literacy Through School Libraries	84.364	IDOE	S365A030014 S365A040014	209,205 4,069,205	84,511 4,069,205
<i>Total for Program</i>				4,278,410	4,153,716
Math/Science Partnerships	84.366	IDOE	S366B030015	1,003,861	958,218
Improving Teacher Quality	84.367	IDOE IDOE IDOE CHE CHE CHE	S367A020013 S367A030013 S367A040013 S367B040014 S367B030014 S281B020014	1,651,408 25,885,499 15,842,734 88,061 856,769 451,307	508,893 25,885,499 15,842,734 27,251 856,769 451,307
<i>Total for Program</i>				44,775,778	43,572,453
State Assessments and Related Activities	84.369	IDOE	S369A030015 S369A040015	828,035 7,454,076	- -
<i>Total for Program</i>				8,282,111	-
<i>Total U.S. Department of Education</i>				633,923,919	578,106,593
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>					
Aging Cluster					
Special Programs for the Aging -Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	FSSA	04AA IN T3 SP 05AA IN T3 SP	4,439,863 3,308,028	4,297,920 3,195,046
<i>Total for Program</i>				7,747,891	7,492,966
Special Programs for the Aging -Title III, Part C - Nutrition Services	93.045	FSSA	04AA IN T3 SP 05AA IN T3 SP	8,176,969 2,693,073	7,838,332 2,617,200
<i>Total for Program</i>				10,870,042	10,455,532
Nutrition Services Incentive Program	93.053	FSSA	2 05 AA IN NSIP 2 04 AA IN NSIP	1,424,516 490,442	- -
<i>Total for Program</i>				1,914,958	2,095,063
<i>Total for Cluster</i>				20,532,891	20,043,561
Child Care Cluster					
Child Care and Development Block Grant	93.575	FSSA	G 04 01 IN TANF G 03 01 IN TANF G 03 01 IN CCDF G 04 01 IN CCDF G 05 01 IN CCDF	4,052,906 2,708,942 6,581,473 32,469,609 7,562,740	- - - - -
<i>Total for Program</i>				53,375,670	30,496,544

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<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
Child Care Cluster (continued)					
Child Care Mandatory and Matching Funds of the					
Child Care and Development Fund (CCDF)	93.596	FSSA			
Child Care Development Fund (CCDF)			G 04 01 IN CCDF	21,309,840	-
Child Care Development Fund (CCDF)			G 05 01 IN CCDF	42,411,587	-
<i>Total for Program</i>				<u>63,721,427</u>	<u>53,291,571</u>
<i>Total for Cluster</i>				<u>117,097,097</u>	<u>83,788,115</u>
Medicaid Cluster					
State Medicaid Fraud Control Units	93.775	AG	01-0401-IN-5050	582,421	-
			01-0501-IN-5050	1,950,834	-
<i>Total for Program</i>				<u>2,533,255</u>	<u>-</u>
State Survey and Certification of Health Care Providers and Suppliers	93.777				
State Survey and Certification of Health Care Providers		FSSA	5 05 05 IN 5001	1,086,149	-
State Survey and Certification of Health Care Providers		FSSA	5 04 05 IN 5001	2,226,570	-
Medicare Title XVIII - 2004		ISDOH	05-0405-IN-5003	2,291,612	72,542
Medicare Title XVIII - 2005		ISDOH	05-0505-IN-5004	4,093,827	238,071
Clinical Lab Improvement Act - 2004		ISDOH	05-105-IN-5003	54,873	-
Clinical Lab Improvement Act - 2005		ISDOH	05-405-IN-5005	182,922	-
<i>Total for Program</i>				<u>9,935,953</u>	<u>310,613</u>
Medical Assistance Program	93.778	FSSA			
Assistance			5 05 05 IN 5028	2,342,716,523	-
Assistance			5 04 05 IN 5028	716,529,598	-
Administration			5 04 05 IN 5048	31,346,140	-
Administration			5 03 05 IN 5048	108,388,239	-
<i>Total for Program</i>				<u>3,198,980,500</u>	<u>-</u>
<i>Total for Cluster</i>				<u>3,211,449,708</u>	<u>310,613</u>
Public Health and Social Services Emergency Fund	93.003	ISDOH			
Bioterrorism Hospital Planning			4 U3R MC 00015-02	9,407,963	9,351,521
Bioterrorism Hospital Planning			8 U3R HS 03847-01-02	8,656,625	8,402,000
<i>Total for Program</i>				<u>18,064,588</u>	<u>17,753,521</u>
Minority HIV/AIDS Demonstration Program	93.006	ISDOH	D92MP02001-02-2	34,116	21,000
			STTMP020015-03-0	36,109	-
<i>Total for Program</i>				<u>70,225</u>	<u>21,000</u>
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	FSSA	04 AA IN T7 SP	101,612	99,802
			05 AA IN T7 SP	86,126	84,282
<i>Total for Program</i>				<u>187,738</u>	<u>184,084</u>
Special Programs for the Aging - Title VII, Chapter 2 - Long-Term Care Ombudsman Services for Older Individuals	93.042	FSSA	04 AA IN T7 SP	174,422	119,850
			05 AA IN T7 SP	212,116	155,898
<i>Total for Program</i>				<u>386,538</u>	<u>275,748</u>

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<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	FSSA	03 AA IN 1717 04 AA IN T3 SP	72,035 <u>379,364</u>	70,889 <u>356,090</u>
<i>Total for Program</i>				<u>451,399</u>	<u>426,979</u>
Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs	93.048	FSSA	90 AZ 245903 90 AZ 245902 90 AZ 278901 90 AZ 282801 90 AM 272801	295,407 (21,016) 130,817 201,447 30,000	- - - - -
<i>Total for Program</i>				<u>636,655</u>	<u>-</u>
National Family Caregiver Support (NFCSP)	93.052	FSSA	03 AA IN 1719 03 AA IN 1719	109,989 <u>2,717,970</u>	- <u>2,717,971</u>
<i>Total for Program</i>				<u>2,827,959</u>	<u>2,717,971</u>
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances Child MH Initiative	93.104	FSSA	C H5 SM 52893 A	<u>1,368,802</u>	<u>-</u>
Maternal and Child Health Federal Consolidated Programs	93.110	ISDOH	2 H18 MC 00017-08 2 H18 MC 00017-09 6H02MC001303S1RO 1 H46 MC 00222-02 1 H46 MC 00222-01 1 H91 MC 00222-03 1 H25 MC 00263-01 H25 MC 00263-02 1 H74 MC 00010-01	46,627 25,915 112 17,193 341,656 360 17,789 52,517 39,452	- - - - 301,959 360 16,172 52,018 -
<i>Total for Program</i>				<u>541,621</u>	<u>370,509</u>
Adolescent Family Life Research Grants	93.111	ISDOH	MC02007-02-016H47	96,736	-
Children's Oral Healthcare Access Program 2004			MC02007-02-016H47	<u>65,000</u>	<u>65,000</u>
<i>Total for Program</i>				<u>161,736</u>	<u>65,000</u>
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	ISDOH	U52/CCU500520-22 U52/CCU500520-23	505,396 <u>290,157</u>	423,355 <u>233,527</u>
<i>Total for Program</i>				<u>795,553</u>	<u>656,882</u>
Emergency Medical Services for Children	93.127	SEMA	EMC-2001-GR-0063	<u>79,202</u>	<u>-</u>
Primary Care Services - Resource Coordination and Development - Primary Care Offices	93.130	ISDOH	5 U68 CS 00182-15 6 U68 CS 00182-16	108,274 <u>9,628</u>	56,270 -
<i>Total for Program</i>				<u>117,902</u>	<u>56,270</u>

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<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
Injury Prevention and Control Research	93.136	ISDOH	U17/CCU5222371-02 U17/CCU5222371-02	18,091 <u>66,535</u>	17,646 <u>63,772</u>
<i>Total for Program</i>				<u>84,626</u>	<u>81,418</u>
Protection and Advocacy for Individuals With Mental Illness	93.138	IPAS	SMX189700-04-1 SMX189700-05-1	371,042 <u>255,063</u>	- <u>-</u>
<i>Total for Program</i>				<u>626,105</u>	<u>-</u>
Projects for Assistance in Transition From Homelessness	93.150	FSSA	S MX 060015 N S MX 060015 M	397,089 <u>239,351</u>	- <u>-</u>
<i>Total for Program</i>				<u>636,440</u>	<u>584,766</u>
Health Program for Toxic Substances and Disease Registry	93.161	ISDOH	U61/ATU502884-15	<u>86,443</u>	<u>-</u>
Community Prevention Coalitions (Partnership) Demonstration Grant Indiana Grassroots Prevention Coalition	93.194	FSSA	C UFSP 08186 A	<u>491,476</u>	<u>-</u>
Childhood Lead Poisoning Prevention Program	93.197	ISDOH	US7/CCU518545-03 US7/CCU522878-02-1	246,547 <u>425,110</u>	102,767 <u>210,850</u>
<i>Total for Program</i>				<u>671,657</u>	<u>313,617</u>
Research on Healthcare Costs, Quality and Outcomes Cooperative Health Statistics - 2004 Cooperative Health Statistics - 2004	93.226	ISDOH	200-2000-07214 200-2000-07214	270,588 <u>271,589</u>	- <u>-</u>
<i>Total for Program</i>				<u>542,177</u>	<u>-</u>
Consolidated Knowledge Development and Application Program Indiana Statewide Treatment Needs Assessment MI DIG	93.230	FSSA	U1 TI 13458A HR1 SM54201-01 HR1 SM56660-01	369,076 84,487 <u>974</u>	- - <u>-</u>
<i>Total for Program</i>				<u>454,537</u>	<u>-</u>
Traumatic Brain Injury - State Demonstration	93.234	IPAS	1H83MC01577-01-0 4H83MC01577-01-1	36,984 <u>28,185</u>	- <u>-</u>
<i>Total for Program</i>				<u>65,169</u>	<u>-</u>
Abstinence Education	93.235	ISDOH	6X01MC0237801	<u>586,170</u>	<u>666,812</u>
Cooperative Agreements for State Treatment Outcomes	93.238	FSSA	U1TI 14631A	<u>17,307</u>	<u>-</u>
State Rural Hospital Flexibility Program	93.241	ISDOH	5 H54 RH0 0042-05-00 5 H54 RH0 0042-06-00	392,746 <u>152,636</u>	526,774 <u>150,550</u>
<i>Total for Program</i>				<u>545,382</u>	<u>677,324</u>
Substance Abuse and Mental Health Services	93.243	FSSA	H9 SM 55157A H9 SM 56140A	72,145 <u>285,107</u>	- <u>-</u>
<i>Total for Program</i>				<u>357,252</u>	<u>-</u>

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<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
Universal Newborn Hearing Screening	93.251	ISDOH			
Universal Newborn Hearing Screening - 2005			1 H61 MC 00059-02	128,328	138,792
Rape Prevention and Education - 2004			VF1/CCV519921-03	612,474	612,474
Rape Prevention and Education - 2005			VF1/CCV519921-03	317,147	317,147
<i>Total for Program</i>				<u>1,057,949</u>	<u>1,068,413</u>
Health Care Access Planning	93.256	FSSA	P09 OA 00050A01 04051 01	307,979 34,367	- -
<i>Total for Program</i>				<u>342,346</u>	<u>-</u>
Rural Access to Emergency Devices	93.259	IDSP			
			6H3DRH01228-01-01	64,790	-
			6H3DRH01228-02-01	29,250	-
<i>Total for Program</i>				<u>94,040</u>	<u>-</u>
Immunization Grants	93.268	ISDOH			
Immunization Program - 2004			H23/CCH522522-01	2,568,182	940,700
Immunization Program - 2005			H23/CCH522522-03-2	1,383,777	703,191
Immunization Program Noncash Assistance			H23/CCH522522-01	898,275	-
Immunization Program Noncash Assistance			H23/CCH522522-03-2	845,028	-
<i>Total for Program</i>				<u>5,695,262</u>	<u>1,643,891</u>
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	ISDOH			
Behavior Risk Factor Surveillance - 2004			U58/CCU522814-01	54,729	54,729
Behavior Risk Factor Surveillance - 2005			U58/CCU522814-02	140,357	134,509
State Epidemiology and Laboratory Surveillance and Response			U50/CCU514402-05-7	405,727	163,633
State Epidemiology and Laboratory Surveillance and Response			U50/CCU523777-01	394,659	153,689
Tobacco Use Prevention and Control - 2004			U1A/CCU516947-03	546,555	546,415
Tobacco Use Prevention and Control - 2005			U58/CCU522814013	587,158	541,169
Reducing the Impact of Arthritis - 2004			U58/CCU522814013	45,910	16,563
Reducing the Impact of Arthritis - 2005			U58/CCU522814025	92,092	76,648
Bioterrorism Preparedness and Response Supplemental - 2004			U90/CCU517024-04	16,341,540	9,235,499
Bioterrorism Preparedness and Response Supplemental - 2005			U90/CCU517024-05	7,494,383	961,410
Bioterrorism Preparedness and Response Non Cash Assistance			U90/CCU517024-04	660,854	-
Bioterrorism Preparedness and Response Non Cash Assistance			U90/CCU517024-05	160,000	-
Addressing Asthma - 2004			U59/CCU520860-01-1	71,286	59,597
Addressing Asthma - 2005			U59/CCU520860-03	57,622	51,300
Comprehensive Cancer Control			U55/CCU521884-02	24,746	22,770
Comprehensive Cancer Control			U55/CCU521884-03	94,715	76,368
Early Hearing Detection and Intervention			UR3/CU523187-01	59,576	-
Early Hearing Detection and Intervention			UR3/CU523187-02	88,508	7,013
Birth Defects Surveillance Program			U50/CCU521144-02	1,715	-
Birth Defects Surveillance Program			U50/CCU521144-03	193,928	-
National Program of Cancer Registries - 2004			U55/CCU521884-02	112,998	175,473
National Program of Cancer Registries - 2005			U55/CCU521884-03	501,317	160,900
<i>Total for Program</i>				<u>28,130,375</u>	<u>12,437,685</u>
Small Rural Hospital Improvement Grant	93.301	ISDOH	5H34RH00003-02 6H34RH00003-03	142,998 55,176	142,998 55,176
<i>Total for Program</i>				<u>198,174</u>	<u>198,174</u>
Promoting Safe and Stable Families	93.556	FSSA	G 03 01 IN OOFF G 04 01 IN OOFF	2,927,089 4,440,911	- -
<i>Total for Program</i>				<u>7,368,000</u>	<u>-</u>

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<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
Temporary Assistance for Needy Families (TANF)	93.558	FSSA	G 04 01 IN TANF G 05 01 IN TANF	102,603,261 <u>89,171,687</u>	- -
<i>Total for Program</i>				<u>191,774,948</u>	-
Child Support Enforcement	93.563	FSSA	G 05 04 IN 4004 G 04 04 IN 4004 90 FD 007501 90 FD 007601	33,492,555 9,897,682 46,039 <u>74,176</u>	- - - -
<i>Total for Program</i>				<u>43,510,452</u>	<u>7,080,909</u>
Refugee and Entrant Assistance - State Administered Programs	93.566	FSSA	G 05 AA IN 5110 G 04 AA IN 5110 G 05 AA IN 5100 G 04 AA IN 5100	110,053 74,178 511,900 <u>268,621</u>	- - - -
<i>Total for Program</i>				<u>964,752</u>	-
Low Income Home Energy Assistance REACH Program REACH Program	93.568	FSSA	G 05 IN LIEA G 04 IN LIEA	49,139,090 <u>4,516,016</u>	- -
<i>Total for Program</i>				<u>53,655,106</u>	-
Community Services Block Grant	93.569	FSSA	G 05 IN COSR G 04 IN COSR	733,759 <u>8,214,578</u>	- -
<i>Total for Program</i>				<u>8,948,337</u>	-
Refugee and Entrant Assistance - Discretionary Grants Health Programs for Refugees - 2004 Health Programs for Refugees - 2005 Refugee Children School Impact 2004	93.576	ISDOH ISDOH IDOE IDOE	90RX0132/01 90RX0132/02 90ZE041/02 90ZE041/03	10,552 55,070 36,729 <u>33,363</u>	10,552 54,107 - -
<i>Total for Program</i>				<u>135,714</u>	<u>64,659</u>
Indiana Court Improvement Program	93.586	SC	JTAC-CIP-FY03 1U57G 1U57G 1U57G	50,000 177,485 275,251 <u>23,159</u>	- 177,485 275,251 23,159
<i>Total for Program</i>				<u>525,895</u>	<u>475,895</u>
Community-Based Family Resource and Support Grants	93.590	FSSA	G 00 02 IN FRPG	<u>698,914</u>	-
Grants to States for Access and Visitation Programs Access and Visitation Access and Visitation	93.597	FSSA	G 03 01 IN SAVP G 02 01 IN SAVP	35,313 <u>31,900</u>	- -
<i>Total for Program</i>				<u>67,213</u>	<u>74,682</u>
Head Start	93.600	FSSA	G 05 CD 001204 G 05 CD 001203	112,949 <u>38,531</u>	- -
<i>Total for Program</i>				<u>151,480</u>	-

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<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
New Assets for Independence Demonstration Program	93.602	COM	90E10325/01	1,035,948	-
Voting Access for Individuals with Disabilities	93.617	SOS	G-0303INVOTE	20,049	-
Developmental Disabilities Basic Support and Advocacy Grants	93.630				
		IGPC	G0101INBS15	(21,678)	(21,678)
		IGPC	G-0201INBS15	441,156	364,720
		IGPC	G-0301INBS15	773,200	506,610
		IGPC	G-0401INBS15	301,266	-
		IPAS	G0301INPA15	97,424	-
		IPAS	G0401INPA15	622,369	-
<i>Total for Program</i>				2,213,737	849,652
Developmental Disabilities of National Significance	93.631	FSSA	90 DF 007001	8,409	-
		IGPC	90 DN 0124/01	(34,266)	(34,266)
		IGPC	90 DN 0124/02	262	-
<i>Total for Program</i>				(25,595)	(34,266)
Child Welfare Services - State Grants	93.645	FSSA	G 04 01 IN 1400	5,267,520	-
			G 03 01 IN 1400	726,984	-
<i>Total for Program</i>				5,994,504	-
Foster Care - Title IV-E	93.658	FSSA	G 05 01 IN 1401	40,179,992	-
			G 04 01 IN 1401	11,036,100	-
<i>Total for Program</i>				51,216,092	-
Adoption Assistance	93.659	FSSA	G 05 01 IN 1407	24,046,573	-
			G 04 01 IN 1407	8,387,367	-
<i>Total for Program</i>				32,433,940	-
Social Services Block Grant	93.667	FSSA			
			G 05 01 IN SOSR	19,026,372	-
			G 04 01 IN SOSR	13,463,474	-
			G 05 01 IN TANF	2,000,000	-
<i>Total for Program</i>				34,489,846	32,413,540
Family Violence Protection and Services/Grants for Battered Womens' Shelters - Grants to States and Indian Tribes	93.671	FSSA	G 04 01 IN FVPS	631,225	-
			G 03 01 IN FVPS	1,165,840	-
<i>Total for Program</i>				1,797,065	-
Independent Living	93.674	FSSA			
			G 04 01 IN 1420	1,234,491	-
			G 03 01 IN 1420	369,079	-
			G 05 01 IN CETV	30,467	-
			G 04 01 IN CETV	712,952	-
			G 03 01 IN CETV	96,402	-
<i>Total for Program</i>				2,443,391	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2004 to June 30, 2005
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
State Children's Insurance Program	93.767	FSSA	5 0305IN 5021 5 0405IN 5R21	44,648,988 30,009,759	- -
<i>Total for Program</i>				74,658,747	-
Medicaid Infrastructure Grant To Support Competitive Employment	93.768	FSSA	05 00000 91781	280,945	-
Health Care Financing Research, Demonstration and Evaluations	93.779				
Nursing Facility Transition		FSSA	05 00000 91655	243,815	-
Quality Assurance		FSSA	05 00000 92095	2,506	-
Comm Integrated Personal Assist Service		FSSA	05 00000 91654	924	-
Real Choice Systems Change		FSSA	05 00000 91653	236,749	-
PAMP		FSSA	05 0305 IN PAMP	114,054	-
Payment Accuracy Measure		FSSA	04 05 IN PERM	8,789	-
DMHA OLMSTEAD		FSSA	Direct	36,012	33,100
State Health Insurance Advisory Grants Program		IDOI	11-P-20202/5-12&13	459,988	-
<i>Total for Program</i>				1,102,837	33,100
State Pharmaceutical Assistance Program	93.786	FSSA	05 0505 IN SPAP	57,043	-
Grants to States for Operation of Offices of Rural Health	93.913	ISDOH			
State Office of Rural Health - 2004			5 H95 RH 00136-11	92,104	43,828
State Office of Rural Health - 2005			2 H95 RH 00136-12	68,855	16,109
<i>Total for Program</i>				160,959	59,937
HIV Care Formula Grants	93.917	ISDOH			
Title II HIV Care Grants - 2005			2 X07 HA 00033-12	10,467,160	1,714,877
Title II HIV Care Grants - 2006			6 X07 HA 00033-14	845,759	91,963
<i>Total for Program</i>				11,312,919	1,806,840
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	ISDOH			
Breast and Cervical Cancer Early Detection - 2004			U55/CCU521884-02	458,767	-
Breast and Cervical Cancer Early Detection - 2005			U55/CCU521884-03	1,440,021	612,989
<i>Total for Program</i>				1,898,788	612,989
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (SHEPSA)	93.938	IDOE			
HIV-AIDS Education			CCU509016-01	140,701	46,548
HIV-AIDS Education			CCU509016-02	564,582	56,323
<i>Total for Program</i>				705,283	102,871
HIV Prevention Activities - Health Department Based	93.940	ISDOH			
HIV Prevention Project - 2004			U62/CCU523488-01	1,499,879	1,064,911
HIV Prevention Project - 2005			U62/CCU523488-02-2	843,927	576,550
<i>Total for Program</i>				2,343,806	1,641,461
HIV/AIDS Surveillance	93.944	ISDOH			
Morbidity and Risk Behavior			U62/CCU524446-02	3,175	-
HIV/AIDS Surveillance and Seroprevalence - 2004			U62/CCU5124282-02	373,851	137,835
HIV/AIDS Surveillance and Seroprevalence - 2005			U62/CCU5235393-02-1	225,387	35,880
<i>Total for Program</i>				602,413	173,715

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2004 to June 30, 2005
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)</u>					
Pass-Through State of Illinois Assistance Programs for Chronic Disease Prevention and Control	93.945	ISDOH	N/A	1,076	-
<i>Total for Program</i>				1,076	-
Trauma Care Systems Planning and Development	93.952	ISDOH	6 H81HS02802-01-02	24,103	-
Block Grants for Community Mental Health Services	93.958	FSSA	05 B1 IN CMHS	2,744,835	-
			04 B1 IN CMHS	5,475,862	-
<i>Total for Program</i>				8,220,697	8,518,742
Block Grants for Prevention and Treatment of Substance Abuse	93.959	FSSA	05 B1 IN SAPT	259,239	-
			04 B1 IN SAPT	32,521,791	-
			03 B1 IN SAPT	912,827	-
<i>Total for Program</i>				33,693,857	-
Preventive Health Services - Sexually Transmitted Disease Control Grants	93.977	ISDOH			
Sexually Transmitted Disease Accel Prevention Campaign - 03-04			H25/CCH504340-13	1,656,060	1,948,193
Sexually Transmitted Disease Accel Prevention Campaign - 05			H25/CCH504340-14	612,849	485,539
Sexually Transmitted Disease - Noncash Assistance			H25/CCH504340	463,734	-
<i>Total for Program</i>				2,732,643	2,433,732
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	ISDOH			
Diabetes Grant - 2005			U32/CCU522713-02	286,415	150,164
Diabetes Grant - 2006			U32/CCU522713-03	29,766	13,216
<i>Total for Program</i>				316,181	163,380
Preventative Health and Health Services Block Grant	93.991	ISDOH			
Preventative Health and Health Services Block Grant - 2004			2004-BI-IN-PRVS-03	2,024,269	1,039,248
Preventative Health and Health Services Block Grant - 2005			2004-BI-IN-PRVS-03	999,850	549,261
<i>Total for Program</i>				3,024,119	1,588,509
Maternal and Child Health Services Block Grant to the States	93.994	ISDOH			
Maternal and Child Health Block Grant - 2004			6 B04 MC 02428-01-02	5,201,002	3,918,846
Maternal and Child Health Block Grant - 2005			6 B04 MC 04272-01-01	8,611,592	6,284,264
<i>Total for Program</i>				13,812,594	10,203,110
Other Assistance					
Drug and Alcohol Services Information System (DASIS)	93	FSSA	283 95 0016	129,372	-
<i>Total Other Assistance</i>				129,372	-
<i>Total U.S. Department of Health and Human Services</i>				4,009,950,671	212,605,810
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE</u>					
State Commissions	94.003	CCSV			
Administrative			04CAHIN001	129,857	-
Administrative			04CAHIN001	149,390	-
<i>Total for Program</i>				279,247	-

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2004 to June 30, 2005
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>CORPORATION FOR NATIONAL AND COMMUNITY SERVICE (continued)</u>					
Learn and Serve America - School and Community Based Programs	94.004	IDOE			
Learn and Serve Grant 2003			00LSHIN013-3	45,020	-
K-12 Formula Grant 2003			00LSFIN102	69,229	-
K-12 Formula Grant 2004			03KSNIN001	398,414	437,764
Learn and Serve Homeland Security Initiative			04KSNIN001	432,466	412,050
<i>Total for Program</i>				<u>945,129</u>	<u>849,814</u>
AmeriCorps	94.006	CCSV			
AmeriCorps Competitive			03ACHIN001	463,661	463,661
AmeriCorps Competitive			03ACHIN001	245,873	245,873
AmeriCorps Competitive			00ASCIN015	1,174	1,174
AmeriCorps Formula			03AFHIN001	509,711	509,711
AmeriCorps Formula			03AFHIN001	443,807	437,140
AmeriCorps Formula			00ASFIN015	29,153	29,153
<i>Total for Program</i>				<u>1,693,379</u>	<u>1,686,712</u>
Planning and Program Development Grants	94.007	CCSV			
AC Promise Fellows			01APSIN015	59,679	69,280
Training and Technical Assistance	94.009	CCSV			
CCSV Program Development and Technical Assistance			05PTHIN001	6,640	437,140
			02PDSIN015	34,743	29,153
<i>Total for Program</i>				<u>41,383</u>	<u>466,293</u>
<i>Total Corporation for National and Community Service</i>				<u>3,018,817</u>	<u>3,072,099</u>
<u>SOCIAL SECURITY ADMINISTRATION</u>					
Disability Insurance/SSI Cluster					
Social Security - Disability Insurance	96.001	FSSA			
			05 04 IND I00	23,721,752	-
			04 04 IND I00	12,307,332	-
			03 04 IND I00	680,879	-
			03 04 DI 02	81,656	-
<i>Total for Program and Cluster</i>				<u>36,791,619</u>	<u>-</u>
Social Security State Grants for Work Incentives Assistance to Disabled Beneficiaries	96.009	IPAS	17-A-20018-5-04 17-A-20018-5-01	52,632 58,811	- -
<i>Total for Program</i>				<u>111,443</u>	<u>-</u>
Other Assistance					
Reimbursement of Vocational Rehabilitation Funds	96	FSSA	N/A	29,358	-
<i>Total Other Assistance</i>				<u>29,358</u>	<u>-</u>
<i>Total Social Security Administration</i>				<u>36,932,420</u>	<u>-</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>					
State Homeland Security Cluster					
State Domestic Preparedness Equipment Support Program	97.004	SEMA			
FY2000-2001			2003-TE-CX-0209	308,460	(50,785)
FY2002			2002-TE-CX-0145	446,755	100,000

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2004 to June 30, 2005
(Continued)

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State Agency Note 4	Grant Number	Disbursements	Passed Through To Subrecipients
<u>U.S. DEPARTMENT OF HOMELAND SECURITY (continued)</u>					
State Homeland Security Cluster (continued)					
State Domestic Preparedness Equipment					
Support Program (continued)					
FY2003 Part 1			2003-TE-TX-0198	(22,477)	(453,770)
FY2003 Part 2			2003-MU-T3-0027	(153,311)	(153,311)
FY2004			2004-GE-T4-0029	22,469,497	21,970,885
<i>Total for Program and Cluster</i>				<u>23,048,924</u>	<u>21,413,019</u>
Community Assistance Program State Support Services Element	97.023	SEMA	EMC-2004-GR-7010	39,025	-
			EMC-2005-GR-7002	67,431	-
<i>Total for Program</i>				<u>106,456</u>	<u>-</u>
Flood Mitigation Assistance	97.029	SEMA	EMC-2003-GR-7040	384,138	-
Disaster Unemployment Assistance	97.034	DWD			
			UI-13546-04-55	45,544	-
			UI-13546-05-55	27,713	-
<i>Total for Program</i>				<u>73,257</u>	<u>-</u>
Public Assistance Grants	97.036				
Tornados - 2004		DNR	N/A	50,356	-
Tornados - 2004		DNR	N/A	14,446	-
Tornados - 2004		DNR	N/A	2,535	-
Floods - 2004		DNR	N/A	1,695	-
Floods - 2004		DNR	N/A	18,836	-
Floods - 2004		DNR	N/A	68,571	-
Floods - 2004		DNR	N/A	35,897	-
Floods - 2004		DNR	N/A	652	-
Snow - 2004		DNR	N/A	6,681	-
Disaster 1418		SEMA	N/A	334,696	334,696
Disaster 1433		SEMA	N/A	151,001	151,001
Disaster 1476		SEMA	N/A	620,032	620,032
Disaster 1520		SEMA	N/A	3,384,402	3,384,402
Disaster 1542		SEMA	N/A	2,839,528	2,839,528
Disaster 1573		SEMA	N/A	11,909,273	11,909,273
Disaster 3197		SEMA	N/A	5,471,132	5,471,132
<i>Total for Program</i>				<u>24,909,733</u>	<u>24,710,064</u>
Hazard Mitigation Grant	97.039	SEMA			
Disaster 1418			N/A	706,590	706,590
Disaster 1433			N/A	543,602	543,602
Disaster 1476			N/A	1,315,925	1,315,925
Disaster 1487			N/A	514,008	514,008
Disaster 1520			N/A	526,373	526,373
Disaster 1542			N/A	116,411	116,411
<i>Total for Program</i>				<u>3,722,909</u>	<u>3,722,909</u>
Chemical Stockpile Emergency Preparedness Program	97.040	SEMA			
CAC			N/A	2,131	-
Chemical Stockpile - 2005			EMC-2005-GR-7008	843,794	621,061
Chemical Stockpile - 2004			EMC-2004-GR-7002	1,926,380	1,805,078
Chemical Stockpile - 2003			EMC-2003-GR-7032	2,392,614	2,111,357
<i>Total for Program</i>				<u>5,164,919</u>	<u>4,537,496</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
July 1, 2004 to June 30, 2005
(Continued)

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Agency Note 4</u>	<u>Grant Number</u>	<u>Disbursements</u>	<u>Passed Through To Subrecipients</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY (continued)</u>					
National Dam Safety Program	97.041	DNR	EMW-2003-GR-0353	16,870	-
Emergency Management Performance Grants	97.042	SEMA	EMC-2004-GR-7004	2,573,558	-
2005 EMPG			EMC-2003-GR-7002	373,445	90,815
			2005-GE-T5-0049	695,176	-
<i>Total for Program</i>				3,642,179	90,815
Pre-Disaster Mitigation	97.047	SEMA	EMC-2002-GR-7034	139,685	139,685
			EMC-2003-GR-7052	246,140	46,057
			EMC-2004-GR-0004	34,849	34,800
<i>Total for Program</i>				420,674	220,542
State and Local All Hazards Emergency Operations Planning	97.051	SEMA	EMC-2003-GR-7016	45,890	32,754
Citizen Corps	97.053	SEMA	EMC-2003-GR-7018	143,766	12,763
Community Emergency Response Teams	97.054	SEMA	EMC-2006-GR-7063	261,846	68,613
Map Modernization Management Support Program	97.070	SEMA	EMC-2004-GR-7022	47,369	-
Other Assistance					
National Fire Academy Training Grant	97	PSTI	N/A	12,000	-
Terrorism	97	PSTI	EME-2002-GR-0165	52,587	-
<i>Total Other Assistance</i>				64,587	-
<i>Total U.S. Department of Homeland Security</i>				62,053,517	54,808,975
<i>Total Federal Awards Expended</i>				<u>\$ 7,539,113,824</u>	<u>\$ 1,279,049,633</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

STATE OF INDIANA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Scope of Schedule

All federal awards received by the State of Indiana, as a governmental unit, have been included in the Schedule of Expenditures of Federal Awards except for the programs administered by the component units listed in Note 3.

Note 2. Basis of Presentation

- a. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the State of Indiana and is presented in accordance with requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of Federal Awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
- b. The source of information for the schedule was obtained from the various agencies' grant records while the financial statements were prepared from the records of the Auditor of State. Therefore, the schedule may not necessarily coincide with the financial statements.

Note 3. Component Units

The entities listed below are component units for financial statement purposes and receive federal financial assistance. The federal transactions of these entities are not reflected in this schedule. Each of these entities has its own independent audits in compliance with OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations with a fiscal year end date of June 30, except for the Indiana Housing Finance Authority which has a fiscal year end date of December 31.

Component Unit	Federal Funds Expended
Purdue University	\$ 231,078,627
Indiana University	309,378,811
Indiana State University	15,880,005
Ball State University	21,890,712
Vincennes University	13,735,028
University of Southern Indiana	7,058,661
Ivy Tech State College	75,305,972
Indiana Housing Finance Authority	<u>149,422,969</u>
Total	<u>\$ 823,750,785</u>

STATE OF INDIANA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Note 4. State Agencies

The initials in the Agency column indicate the agency that receives the federal funds directly. The following table identifies the state agencies. See also note 8.

<u>Agency</u>	<u>Agency Name</u>
AG	Attorney General, Office of the
BOAH	Board of Animal Health
CCSV	Governor's Commission on Community Service and Volunteerism
CHE	Commission for Higher Education
COM	Indiana Department of Commerce
DCS	Indiana Department of Child Services
DNR	Indiana Department of Natural Resources
DOC	Indiana Department of Correction
DOL	Indiana Department of Labor
DWD	Indiana Department of Workforce Development
FSSA	Family and Social Services Administration
IAC	Indiana Arts Commission
ICJI	Indiana Criminal Justice Institute
ICPE	Indiana Commission on Proprietary Education
ICRC	Indiana Civil Rights Commission
IDEM	Indiana Department of Environmental Management
IDFBS	Indiana Department of Fire and Building Services
IDHS	Indiana Department of Homeland Security
IDOA	Indiana Department of Administration
IDOE	Indiana Department of Education
IDOI	Indiana Department of Insurance
IDOR	Indiana Department of Revenue
IDSP	Indiana Department of State Police
IDVA	Indiana Department of Veterans' Affairs
IGPC	Indiana Governor's Planning Council for People With Disabilities
INDOT	Indiana Department of Transportation
IPAS	Indiana Protection and Advocacy Services Commission
IPSB	Indiana Professional Standards Board
ISDOH	Indiana State Department of Health
ISL	Indiana State Library
IURC	Indiana Utility Regulatory Commission
IVH	Indiana Veterans' Home
LtGov	Lieutenant Governor – Office of Commissioner of Agriculture
MD	Military Department of State of Indiana
PSTI	Public Safety Training Institute
SBA	State Budget Agency
SC	Supreme Court
SEMA	State Emergency Management Agency
SRDC	State Rural Development Council
SSACI	State Student Assistance Commission of Indiana

STATE OF INDIANA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Note 5. State Unemployment Insurance Benefits

State Unemployment Insurance Benefits represent the funds returned from the U.S. Treasury for nonfederal unemployment benefits. The State collects unemployment taxes from employers and deposits them in the Unemployment Insurance Trust Fund to be used by the State.

Note 6. Noncash Assistance

The State expended the following amount of noncash assistance for the year. This noncash assistance is also included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	Noncash Assistance Expended
School Lunch	10.555	\$ 21,112,636
Donation of Federal Surplus Personal Property	39.003	1,769,412
Immunization Grants	93.268	1,743,303
Bioterrorism Preparedness and Response	93.283	820,854
Preventive Health Services - Sexually Transmitted Disease Control Grants	93.977	463,734

Note 7. Social Security Vocational Rehabilitation Funds

The Social Security Administration (SSA) reimburses FSSA for counseling and tracking cost of Vocational Rehabilitation clients who have been successfully rehabilitated and have been removed from Social Security Disability Insurance. (The original costs were paid with Vocational Rehabilitation and state funds.) These reimbursements are considered and treated as program income by the federal government. The reimbursements from SSA have certain uses and restrictions. We consider these funds to be additional program money and thus have included them on the schedule.

There are certain time limits on the disbursement of these funds. If the Indiana Family and Social Services Administration (FSSA) does disburse these funds within the time limits, the funds become program income and FSSA must use the funds and reduce their draw of Vocational Rehabilitation funds.

Note 8. Subsequent Events

Formation of New Departments

Effective January 11, 2005, the Department of Child Services (DCS) was created. Several federal programs formerly under Family and Social Services Administration (FSSA) are now under the authority of DCS. However, many key processes, such as financial management and internal audit, are still under the authority of FSSA.

STATE OF INDIANA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Effective April 15, 2005, the Department of Homeland Security (IDHS) was created. The departments formerly known as State Emergency Management Agency (SEMA), Indiana Department of Fire and Building (IDFBS), and Public Safety Training Institute (PSTI) were incorporated into IDHS. For identification purposes on the June 30, 2005, Schedule of Federal Financial Assistance, SEMA, IDFBS, and PSTI are still broken out and identified as such. There were no programs identified specifically to IDHS.

Effective February 9, 2005, the Department of Commerce (COM) ceased to exist. The property, funds, and obligations of COM were transferred to the newly established Indiana Economic Development Corporation and the Office of the Lieutenant Governor. For identification purposes on the June 30, 2005, Schedule of Federal Financial Assistance, COM was used to identify programs previously administered by this former agency. The Office of the Lieutenant Governor is the contact for these programs.

Effective May 15, 2005, the Indiana Housing Finance Authority became the Indiana Housing and Community Development Authority.

Change of Authority for Revolving Funds

Public Law 235-2005 moved the authority of the Capitalization Grants for Wastewater State Revolving Funds, CFDA Number 66.458, and the Capitalization of Grants for Drinking Water State Revolving Funds, CFDA Number 66.468, from the Indiana Budget Agency to the Indiana Finance Authority. While the effective date was May 15, 2005, the actual structure implementation for financial reporting purpose occurred effective July 1, 2005.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes

Noncompliance material to financial statements noted?	No
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Federal Awards:

Internal control over major programs:

Material weaknesses identified	Yes
Reportable conditions identified that are not considered to be material weaknesses?	Yes

Type of auditor's report issued on compliance for major programs: Qualified for Social Services Block Grant (93.667). Unqualified for all others.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes
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Dollar threshold used to distinguish between Type A and Type B programs: \$22,617,341

Auditee qualified as low-risk auditee?	No
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Identification of major programs:

CFDA No.	Program Title
CNC	Child Nutrition Cluster (10.553,10.555,10.556,10.559)
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
14.228	Community Development Block Grant
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance-Workers
20.205	Highway Planning and Construction
66.458	Capitalization Grants for State Revolving Funds
SEC	Special Education Cluster (84.027,84.173)
84.048	Vocational Education-Basic Grants to States
84.126	Rehabilitation Services – Vocational Rehabilitation
84.367	Improving Teacher Quality State Grants
MC	Medicaid Cluster (93.778, 93.775, 93.777)
CCC	Child Care Cluster (93.575, 93.596)
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance
93.563	Child Support Enforcement

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

CFDA No.	Program Title
93.568	Low-Income Home Energy Assistance
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant (Title XX)
93.767	State Children's Insurance Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse
DIC	Disability Insurance/SSI Cluster (96.001)
97.036	Public Assistance Grant

Section II - Financial Statement Findings

The audit of the State of Indiana's financial statements disclosed reportable conditions that are required to be reported. Their response to the findings start on page 244.

FINDING 2003 - CAFR-1, CAPITAL LEASES

The Procurement Division of the Indiana Department of Administration maintains a database of lease activity. Procedures in place to update the lease database do not ensure that all qualifying leases are entered into the lease database. This results in the database not being complete.

Adequate lease records should be maintained by the Department of Administration to ensure that lease obligations are properly presented in the State's financial statements in accordance with standards issued by the Financial Accounting Standards Board.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standard setting bodies. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

FINDING 2005 - CAFR-1, CAPITAL ASSETS

The Indiana Department of Administration is required by statute to provide for the periodic inspection, appraisal, and inventory of all of the State's real and personal property. The Auditor of State needs financial information relating to the State's real and personal property for financial reporting purposes and had agreed to assume the responsibility for maintaining those records. Procedures have been established which require all state agencies to send timely updates of capital asset purchases and retirements of \$20,000 or more to the Auditor of State. Additionally, agencies are required to physically tag assets and conduct an annual physical inventory of assets, comparing the results of such inventory to the Auditor of State and agency maintained capital asset records. Through our testing we found that state agencies do not consistently comply with the above requirements. This results in a lack of internal control over the State's capital assets as well as a misstatement of capital assets in the State's financial statements. Assets are frequently reported as additions in subsequent fiscal periods after the acquisition of the assets. This lack of timely reporting results in prior period adjustments in the State's financial statements.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Governmental Accounting Standards Board requires the capitalization of a government's capital assets in the period in which they are acquired.

Indiana Code 4-13-1-20(b) and 4-20.5-6-3 state that the Department of Administration shall provide for the periodic inspection, appraisal, and inventory of all of the state's property, and shall require reports from agencies concerning the property in the custody of each state agency.

Each agency, department, institution or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. Compliance is required, as applicable, with generally accepted accounting principles, and standards issued by the Governmental Accounting Standards Board, Financial Accounting Standards Board, and other standard setting bodies. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Section III - Federal Award Findings and Questioned Costs

The findings are numbered with the state year, then the initials of the state agency responsible (the initials are defined in Note 4 of the Notes to the Schedule of Expenditures of Federal Awards) and then a sequential number. Unless otherwise noted, prior report references are to the State of Indiana Single Audit Report for the period of July 1, 2003 to June 30, 2004, Report Number B24926.

PRIOR FINDINGS

Prior audit findings regarding procedures, compliance, or internal controls that continued to be findings per the criteria of OMB Circular A-133 during this audit period are not repeated in this Schedule of Findings and Questioned Costs. They are disclosed in the Summary Schedule of Prior Audit Findings. These findings include:

96-FSSA-33	Fund Balances - Child Support Enforcement Fund Centers
99-FSSA-7	ISETS Information Technology (IT) Controls
2000-FSSA-1	Lack of and Improper Supporting Documentation
2000-FSSA-2	Overpayment of Adoption Assistance Subsidies
2000-FSSA-3	Foster Care Provider Licensure
2000-FSSA-5	Child Support Enforcement Program Federal Reporting
2002-FSSA-3	Title XX and Validation of Day Services Claims
2003-FSSA-1	Foster Care Payments
2003-FSSA-3	Allowable Costs/Cost Principles
2003-FSSA-6	Child Care and Development Fund (CCDF) - Monitoring of Registered Ministries
2003-FSSA-9	Child Care and Development Fund (CCDF) Local Offices of Family and Children
2003-FSSA-16	Ongoing Verification of Provider Medical Licenses
2004-FSSA-2	Vocational Rehabilitation Services Fund (VR) – IRIS System
2004-FSSA-3	Division of Family and Children – Bureau of Program Integrity
2004-FSSA-4	Family and Social Services Advisory Committee
2004-FSSA-5	Supervision of Local Offices of Family and Children (OFCs)
2004-FSSA-6	Death Verifications
2004-FSSA-7	Home and Community Based Service Waivers
2004-FSSA-8	Provider Enrollment (HCBS Wavers, First Steps)

Our test of the Summary Schedule of Prior Audit Findings found the schedule to be materially correct except as noted in the current findings.

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(Continued)

Findings 2005-FSSA-1 through 2005-FSSA-30 relate to programs administered by the Indiana Family and Social Services Administration (FSSA) and Department of Child Services (DCS); see also note 8 under the Notes to Schedule of Expenditures and Federal Awards. The two agencies consolidated their responses into one. Their response to the findings starts on page 245.

FINDING 2005 - FSSA-1, CASH MANAGEMENT DOCUMENTATION OF PROCEDURES

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Finance, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Cash Management
Internal Control:	Reportable Condition

During our audit of FSSA, we found that FSSA's Financial Management Division did not have an adequate system of documentation to trace specific expenditures to its corresponding federal draw. This is a systematic issue which could affect most grants. This occurred due to a lack of formal written procedures over Cash Management. This is a control weakness.

45 CFR 92.20 (b)(2) states in part: "Accounting Records. Grantees . . . must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards . . . assets, liabilities, outlays or expenditures and income."

45 CFR 92.20 (a) states in part: "A state must expend and account for grant funds in accordance with State laws and procedure for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees . . . must be sufficient . . ."

We recommended that FSSA develop formal written procedures over Cash Management to ensure that federal draws follow their respective check clearance pattern templates and that adequate supporting documentation of draws be maintained.

FINDING 2005 - FSSA-2, CASH MANAGEMENT SCHIP TEMPLATE

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SCHIP)
CFDA Number:	93.767
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Finance, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Cash Management
Internal Control:	Reportable Condition

During our audit of FSSA, we found that the check clearance pattern template for the State Children's Health Insurance Program (SCHIP) was inaccurate because it had not been properly updated to include only necessary data. Furthermore, we found other check clearance pattern templates that had not been properly updated to include additional necessary data and remove outdated data. The change in data would not have changed the final templates. FSSA did not properly monitor to ensure that only necessary data utilized to calculate the check clearance pattern templates, was properly included. This is a control weakness.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

45 CFR 92.40(a) states: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and sub grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

We recommended that FSSA implement procedures to adequately monitor to ensure that only necessary data be included in the computation of the check clearance pattern templates.

FINDING 2005 - FSSA-3, LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP) – SUBRECIPIENT MONITORING

Federal Agency:	Department of Health and Human Services
Federal Program:	Low-Income Home Energy Assistance Program
CFDA Number:	93.568
Auditee Contact Person:	Cortne O'Neill
Title of Contact Person:	Section Manager, LIHEAP
Phone Number:	317-232-7050
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Reportable Condition

FSSA's Division of Family Resources (DFR) enters into agreements with grantees for funding to provide authorized services to eligible individuals under the Low-Income Home Energy Assistance Program (LIHEAP). Grantees are reimbursed for allowable costs incurred in accordance with the terms of the agreements. Grantees also agree to comply with all requirements of the grant and any other applicable laws and regulations governing the services to be provided.

During our audit of the Low-Income Home Energy Assistance Program, we found that one of the methods utilized by the quality control consultants to monitor the grantees is to physically select random files from the filing cabinet upon arriving at the agency. This allows the agencies to possibly hide files, thereby restricting the scope of sample selection, thus resulting in a monitoring and risk assessment control weakness.

45 CFR 92.40(a) states: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and sub grant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

We recommended that FSSA (DFR) implement procedures to adequately monitor program activity and assess risk by ensuring that monitoring samples are selected from the known universe of the LIHEAP recipients.

FINDING 2005 - FSSA-4, PSC 272 QUARTERLY REPORTS

Federal Agency:	Department of Health and Human Services
Federal Program:	Title IV-D, Child Care Cluster
CFDA Number:	93.563, 93.575, 93.596
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Finance, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

During our audit of FSSA, we found that the Federal Cash Transaction Report, PSC 272, quarterly reports had inaccurate amounts reported as compared to FSSA's Federal Expense Tracking System (FETS). FSSA did not have a reconciliation process in place to verify that expenses in FETS were recorded properly on the PSC 272 quarterly report. Through inquiry and observation, there is a lack of monitoring controls to verify that the dollar amounts recorded on the PSC 272 quarterly reports are accurate prior to being reported to the federal government.

45 CFR 92.20(b) states: "The financial management systems of other grantees and subgrantees must meet the following standards: - (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant."

We recommended that FSSA implement a reconciliation process to verify that the amounts recorded on the Federal Cash Transaction Report PSC 272 quarterly reports are accurate prior to being reported to the federal government.

FINDING 2005 - FSSA-5, SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE-REPORTING ERRORS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program, Child Support, Child Care Cluster
CFDA Number:	93.778, 93.563, 93.575, 93.596
Auditee Contact Person:	David Nelson
Title of Contact person:	Director, Financial Management
Phone Number:	317-232-7088
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition, Material Weakness

During our audit of FSSA, we found that the Schedule of Federal Financial Assistance had numerous errors totaling over \$100 million. FSSA resubmitted the Schedule to us multiple times throughout the period August 2005 to March 30, 2006. Errors were found in receipts, disbursements, pass-through amounts, CFDA numbers, cross-footing in ending balances, and entire grants being left off the schedule. Even though these errors were resolved, such materially significant errors in the future could result in a qualification of the Schedule. This also affects the reliability of how major programs are determined. The lack of formal written procedures and an inadequate review process of the Schedule contributed to the potential for errors. This is a control weakness.

45 CFR 92.20 states: "(a) A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to— (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes."

We recommended that FSSA develop formal written procedures in preparing the Schedule of Federal Financial Assistance and institute a thorough review process of the schedule to ensure accurate, current and complete disclosure of the financial results.

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(Continued)

FINDING 2005 - FSSA-6, INDEPENDENT PEER REVIEWS,
DIVISION OF MENTAL HEALTH AND ADDICTION

Federal Agency:	Department of Health and Human Services
Federal Programs:	Prevention and Treatment of Substance Abuse
CFDA Number:	93.959
Auditee Contact Person:	John Viernes
Title of Contact Person:	Deputy Director, DMHA
Phone Number:	317-232-7913
Compliance Requirement:	Special Tests and Provisions-Peer Reviews
Internal Control:	Reportable Condition

During our audit of FSSA, DMHA could not provide most of the peer review reports selected for audit. In addition, we found that subrecipients directly exchanged the performance of peer reviews on one another. For example, subrecipient A would perform a peer review on subrecipient B and subrecipient B would perform a review on subrecipient A. This does not provide for an independent peer review process and is a control weakness.

DMHA provided a letter from their federal cognizant agency, Substance Abuse and Mental Health Services Administration (SAMHSA) stating that FSSA could utilize a subrecipient's accreditation (certification) report in lieu of a peer review. However, this conflicts with 45 CFR 96.136 (e) which does not allow for reports utilized in the certification process to be used as the peer reviews.

45 CFR 96.136(e) states: ". . . the State shall ensure that independent peer review is not conducted as part of the licensing/certification process."

45CFR96.136(a) states: "The State shall for the fiscal year, for which the grant is provided, provide for independent peer review to assess the quality, appropriateness, and efficacy of treatment services provided in the State to individuals under the program involved, and ensure that at least 5 percent of the entities providing services in the State under such program are reviewed. The programs reviewed shall be representative of the total population of such entities."

We recommended that FSSA maintain for audit all peer review reports. We also recommended that FSSA ensure that peer reviewers refrain from directly exchanging reviews. Rather, peer reviewers should review a facility other than the facility from which they received their peer review evaluation.

FINDING 2005 - FSSA-7, SAPT - MAINTENANCE OF EFFORT

Federal Agency:	Department of Health and Human
Federal program:	Prevention and Treatment of Substance Abuse (SAPT)
CFDA Number:	93.959
Auditee Contact Person:	John Viernes
Title of Contact Person:	Deputy Director, DMHA
Phone Number:	317-232-7913
Compliance Requirement:	Maintenance of effort
Internal Control:	Reportable Condition

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(Continued)

During our audit of FSSA, we found that the fiscal year aggregate SAPT state expenditures for authorized activities was less than the average level of such expenditures maintained by the State for the two state fiscal years preceding the fiscal year for which the State applied for the grant. The minimum amount of expenditure required to be spent by the State was \$10,514,118 which was the amount expended by the State for the fiscal year 1994. This amount was the average level of expenditure by the State for the two year period preceding the first year for which FSSA applied for the grant. However, the State's fiscal year aggregate expenditures were \$10,360,318 which fell short of the minimum required expenditure by \$153,800. Furthermore, we found that FSSA does not monitor to ensure that they have met the required minimum amount of expenditure.

45 CFR section 96.134(a) states in part: "With respect to the principal agency of a State for carrying out authorized activities, the agency shall for each fiscal year maintain aggregate State expenditures by the principal agency for authorized activities at a level that is not less than the average level of such expenditures maintained by the State for the two year period preceding the fiscal year for which the State is applying for the grant."

45 CFR section 96.124(c)(3) states: "For grants beyond fiscal year 1994, the State shall expend no less than an amount equal to the amount expended by the State for fiscal year 1994."

We recommended that FSSA monitor SAPT expenditures to ensure that the required minimum expenditure level for each state fiscal year is met.

FINDING 2005 – FSSA-8, MINIMUM PRIMARY PREVENTION REQUIREMENT
NOT MONITORED, DIVISION OF MENTAL HEALTH AND ADDICTION

Federal Agency:	Department of Health and Human Services
Federal Programs:	Prevention and Treatment of Substance Abuse
CFDA Number:	93.959
Auditee Contact Person:	John Viernes
Title of Contact Person:	Deputy Director, DMHA
Phone Number:	317-232-7913
Compliance Requirement:	Earmarking
Internal Control:	Reportable Condition

During our audit of FSSA, we found that DMHA did not monitor primary prevention expenditures for individuals who do not require treatment for substance abuse to ensure that at least 20% of the grant award was spent on primary prevention.

45 CFR 96.124 (b)(1) and 45 CFR 96.125 provides in part that the State shall expend not less than 20% of the total grant amount to be used for primary prevention programs for individuals who do not require treatment for substance abuse.

45 CFR 92.40(a) states: "Grantees are responsible for managing the day to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function, or activity."

We recommended that FSSA implement procedures to monitor that at least 20% of the grant award is spent on primary prevention.

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(Continued)

FINDING 2005 - FSSA-9, SITE VISITS, DIVISION OF MENTAL HEALTH AND ADDICTION

Federal Agency:	Department of Health and Human Services
Federal Programs:	Prevention and Treatment of Substance Abuse
CFDA Number:	93.959
Auditee Contact Person:	John Viernes
Title of Contact Person:	Deputy Director, DMHA
Phone Number:	317-232-7913
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Reportable Condition

During our audit of FSSA, we found that DMHA could not locate and therefore did not make available for audit some selected on-site visit records for Chronic Addictions (CA) Managed Care Providers (MCP).

The SAPT State Plan (Page 186) states: "Implementation of these procedures is monitored through site visits to Block Grant funded agencies. A minimum of 20% of the funded treatment agencies are reviewed."

45CFR92.42 states: "a) Applicability. (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees which are: (i) Required to be maintained by the terms of this part, program regulations or the grant agreement ..."

We recommended that FSSA maintain site visit records.

FINDING 2005 - FSSA-10, OVERPAID AND UNDOCUMENTED MANUAL PAYMENTS ISSUED

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Pat Casanova, Jeanne LaBrecque
Title of Contact Person:	Director of SCHIP, Director of OMPP
Phone Number:	317-232-4390, 317-234-2407
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

The State's fiscal agent for the Medicaid program, EDS, has a process to pay expenditures based on payout requests and manual check requests. We reviewed and tested these payment records and found that EDS did not always obtain OMPP approval to issue payments, or sufficient documentation to support the expenditure. The following payments are considered as questioned cost to the federal program:

- OMPP approved that an interim payment be issued to a hospital, however, the calculations were not approved. The manual calculations made were in error, as was a subsequent system payment that was issued for the balance of the dates of service. The total overpaid was \$623,101.
- A payment was issued for a 1995 settlement agreement. The total interest paid was \$161,648.

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(Continued)

- A payment was issued without the supporting calculation for \$468,804.
- A dentist was refunded the amount he reimbursed for duplicate payments identified. The basis for the refund was not documented in EDS records. The refund issued was \$25,959.

The above questioned costs total \$1,279,512. The federal share of the questioned costs may be required to be repaid with State funds.

"To be allowable under Federal awards, costs must meet the following general criteria: a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards. b. Be allocable to Federal awards under the provisions of this Circular . . . d. Conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items. . . j. Be adequately documented." US OMB Circular A-87, section C (1)

"Costs incurred for interest on borrowed capital or the use of a governmental unit's own funds, however represented, are unallowable except as specifically provided in subsection b. or authorized by Federal legislation." US OMB Circular A-87, Attachment B, 23.

We recommended that FSSA review and approve calculations for expenditures based on payout requests and manual check requests. Controls to ensure only allowable, documented costs are recorded by the fiscal agent should be developed and monitored. FSSA should obtain adequate documentation, seek reimbursement for and repay the federal share of the total questioned costs to the federal government.

FINDING 2005 - FSSA-11, DENTAL CORPORATION CLAIMS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Utilization Control and Program Integrity
Internal Control:	Reportable Condition

We observed that claims for dental groups were paid without rendering provider information. As a result of omitting the rendering provider from dental group claims, proper utilization analysis could not be performed. This condition precludes analysis of claims billed from dental groups, as well as claims billed for dental providers which operate a private practice in addition to working in a group practice. The Surveillance and Utilization Review (SUR) function provides profiles of health care delivery and utilization patterns of providers and recipients. By analyzing and comparing providers and recipients to their peer groups, atypical practices can be identified and appropriate action may be pursued.

We found that AIMS has not evaluated dentist claims for edit 1008 (rendering provider must have an individual provider number) since at least the year 2000. On June 3, 2005, Change Order fifty-two (52) was released into production. The change order narrative states that its purpose is, "to meet HIPAA requirements by allowing dental rendering at the detail level." A provider bulletin dated June 1, 2005, informed providers that the rendering provider's number is required and where it should be submitted on the claim. We observed denial of dental claims because of edit 1008 during June 2005.

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(Continued)

Subsequent to our audit period, on July 25, 2005, edit 1008 was inactivated for dentists at the request of FSSA on Reference Change Order 2877. In addition, the following other edits were also inactivated for dentist claims at that time: 231 (rendering provider number is missing), 232 (rendering physician number is not in a valid format), 1010 (rendering provider is not a member of the billing group, or rendering not equal billing), 1004 (rendering provider not eligible to render services on this program for the date of service), and 7509 (rendering provider on prepayment review). According to the document describing the change, "... the OMPP feels that there was not adequate notification to providers for them to modify their procedures to enroll rendering providers in the system." From start to finish, the provider enrollment process is roughly 30 days. As of March 31, 2006, FSSA has not requested that the edits be reactivated.

42 CFR §456.23 states that: "The agency must have a post-payment review process that-- (a) Allows State personnel to develop and review-- (1) Recipient utilization profiles;(2) Provider service profiles; and (3) Exceptions criteria; and (b) Identifies exceptions so that the agency can correct misutilization practices of recipients and providers."

42 CFR §456.3 states that: "The Medicaid agency must implement a statewide surveillance and utilization control program that-- (a) Safeguards against unnecessary or inappropriate use of Medicaid services and against excess payments; . . . (c) Provides for the control of the utilization of all services provided under the plan in accordance with subpart B of this part; and (d). . . ."

We recommended that FSSA ensure that rendering dentists are identified on all dental group claims. FSSA should also ensure that post-payment review processes and the SUR program include necessary procedures to ensure proper payments are issued for dental services.

The EDS Claims Resolutions Manual indicated that the following other types of providers/ specialties and codes are excluded from edit 1008: Rehabilitation Center (06), Title V Clinic (08/085), School Corporation (16), Public Health Department (17), Optician (21), Durable Medical Clinic (35), Transportation (36), Laboratory (38), and Radiology Provider (39). We further recommended that FSSA ensure that rendering provider information is required for all applicable provider group practice claims for SUR purposes.

FINDING 2005 - FSSA-12, DUPLICATE CLAIMS IDENTIFIED BY CONTRACTOR

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

The rate-setting contractor performs desk reviews of hospital cost reports and is also the Payment Integrity Program (PIP) contractor. During our audit period, the contractor finalized the desk reviews of the 2002 inpatient hospital cost reports. One of the desk review procedures performed during 2002 was the identification of duplicate hospital claims. From the rate-setting/PIP contractor, we were provided with a listing dated January 25, 2003, with \$1,067,465.50 in identified duplicate payments from 50 different providers for claims paid between 1998 and 2002.

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(Continued)

We inquired as to the collection of the identified duplicate hospital claims and requested all of the related documentation. OMPP determined that this was one of two duplicate claim recovery projects that had been performed. The rate-setting/PIP contractor was then to recover for those duplicate claims paid prior to January 1, 2000, and the fiscal agent was to recover the balance.

The rate-setting/PIP contractor provided the repayment spreadsheet which listed duplicate claims prior to January 1, 2000, and totaled \$255,535.45. Check copies were not provided to substantiate the repayments listed on the spreadsheet. According to the listing, there are also accounts which have not been paid in full. Notes were also entered where overpayments were reduced in the appeals process. Documentation to support the reductions was also not provided. As these were not fully documented for our audit, the duplicate payments listed on the spreadsheet are considered questioned cost.

OMPP stated that the duplicate claims paid after January 1, 2000, were subject to a mass identification and recovery process that the fiscal agent contractor performed on March 14, 2003. We were provided with the mass adjustment and confirmed that accounts receivable were set up for \$86,352.95 of the duplicate claims discovered. As of March 31, 2003, we were not provided with any documentation of any attempt to recover, or to adjust the expenditures for the balance of the duplicate claims identified which totaled \$725,577.20. For a sample of the duplicate claims identified, payment recoveries were not located on the AIMS accounts receivable record nor were void/replaced check information located for the claims when searching the record by claim number.

As the payment of duplicate claims is not an allowed cost for the program, and adequate information documenting the recovery and accounting entries to adjust expenditures were not provided for audit, we consider the total of the spreadsheet list items, \$255,535.45 plus those which were not recorded for adjustments or collections, of \$725,577.20 to be questioned cost. The federal share of the total questioned costs of \$981,112.65 may be required to be repaid to the federal government with State funds.

"If the administrator and a provider fail to enter into an agreement not more than sixty (60) days after the administrator's discovery of an overpayment, the administrator shall immediately certify the facts of the case to the Medicaid fraud control unit established under IC 4-6-10." Indiana Code 12-15-23-5

45 CFR §92.40 (a) states that: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

45 CFR §92.36 states: "(2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders."

45 CFR §92.22 states that: "Grant funds may be used only for: "(1) the allowable costs of the grantees, subgrantees and cost-type Contractors . . ."

We recommended that FSSA ensure controls are in place for the timely identification and recovery of duplicate or other claims paid in error. Adequate documentation must be obtained and retained concerning the recovery process of identified overpayments. Those which have either not been recovered, or that have not been agreed to be repaid, must be certified to the Medicaid fraud control unit in accordance with Indiana Code 12-15-23-5.

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(Continued)

FINDING 2005 - FSSA-13, INPATIENT HOSPITAL DUPLICATES NOT DETECTED

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program, State Children's Health Insurance Program (SCHIP)
CFDA Number:	93.778, 93.767
Auditee Contact Person:	Jeanne LaBrecque, Ann Alley
Title of Contact Person:	Director of the OMPP, Director of the SCHIP
Phone Number:	317-234-2407, 317-232-4390
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

We performed claims data analysis to identify possible duplicate inpatient hospital claims paid during the quarter ended June 30, 2005. Our analysis listed 156 pairs of claims paid with date of service conflicts for the same eligible recipient. Of the 38 pairs of claims tested, all except for 3 pairs were previously identified within the system and corrected by voiding the check, replacing the check, voluntary return of a check by provider, or an accounts receivable entry. The 3 pairs of duplicate claims we identified were not previously identified by the system as errors.

Of the 3 duplicate claim pairs identified, 2 were inpatient crossover claims and 1 was an inpatient claim. Each claim in each pair was submitted using a different provider number than the claim's duplicate. There were failures in the system edits used to identify duplicate claims.

For the 2 inpatient crossover duplicate claims, the fiscal agent identified the reason for paying the claims as an error in the system logic for the identification of this type of duplicate. The duplicate claim for each of the pairs was identified by the system for inpatient crossovers, but was automatically paid. The identified duplicate inpatient crossover claims were not subsequently reviewed after being paid and have not been reimbursed by the provider.

For the 1 inpatient duplicate claim, the system did not identify the duplicate to the other claim, the claims were not reviewed following payment, and the duplicate payment has not been recovered.

There is no process in place by the fiscal agent to report and review each duplicate inpatient hospital claim payment identified by system claim edits for review. The only way that inpatient claims may be reviewed is if they fall into the 2% to 5% review of all work performed in the department that is selected for supervisory quality control review.

42 CFR §447.45 states that a prepayment review must consist of ". . . (iii) Verification that the claim does not duplicate or conflict with one reviewed previously or currently being reviewed."

45 CFR §92.22 states that: "Grant funds may be used only for: (1) The allowable costs of the grantees, subgrantees and cost-type Contractors. . . ."

Under OMB Circular A-87, a cost must meet the following general criteria to be allowable under Federal awards: be necessary and reasonable for proper and efficient performance and administration of Federal awards and be authorized or not prohibited under State or local laws or regulations.

The duplicate claims found in our test totaled \$6,009.63. Expenditures for duplicate claims are not allowed and are considered to be questioned costs. The federal share of the questioned costs may be required to be repaid to the federal government with State funds.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended that FSSA ensure that system edits used in the identification of potential duplicate claims are reviewed for completeness and accuracy. We recommend the creation of a report of inpatient claims which have been paid with date of service conflicts for the same recipient. The reported claims should be reviewed for appropriateness. Reimbursement for questioned costs should be obtained. The balance of the fiscal year ended June 30, 2005, should be reviewed for possible duplicate claims which may have been paid in error. Reimbursement should also be obtained for duplicate claims identified from this process.

FINDING 2005 - FSSA-14, CONTRACTOR MONITORING – DESK REVIEWS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Inpatient Hospital Audits
Internal Control:	Reportable Condition

The rate-setting contractor performs desk reviews of hospital cost reports. FSSA's OMPP selects desk review files to be reviewed during on-site monitoring of the contractor. However, the monitoring procedure and outcome of monitoring procedures in place by OMPP for the desk reviews is not documented. Documented procedures and the documentation of the outcome of each procedure for each item tested would ensure that consistent procedures are applied during the on-site monitoring of the contractor.

45 CFR §92.40(a) states that: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

We recommended FSSA develop written procedures for monitoring of the rate-setting contractor's hospital desk reviews. This should include methods to document the sampling technique, procedures performed, and outcome of procedures.

FINDING 2005 – FSSA-15, C&T PROCESS - MONITORING OF CONTRACTOR

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Provider Health and Safety Standards
Internal Control:	Reportable Condition

OMPP has not performed on-site visits to their fiscal agent contractor since at least June 2004 to observe procedures and test documents to ensure that procedures are performed as detailed in the manual for the handling of Certification and Transmittal (C&T) documents.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Indiana State Department of Health (ISDH) is responsible for the issuance of C&T documents. C&Ts inform the Medicaid fiscal agent whether or not facilities have met prescribed health and safety standards. OMPP reviews and approves revisions to the fiscal agent's Provider Enrollment Operations Manual. The manual addresses the handling of documents received from the OMPP and ISDH. Improper handling of C&Ts may result in payments to facilities which have not met the prescribed health and safety standards.

45 CFR §92.40 states that: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

42 CFR §442.12 states: "Provider agreement: General requirements. (a) Certification and recertification. Except as provided in paragraph (b) of this section, a Medicaid agency may not execute a provider agreement with a facility for nursing facility services nor make Medicaid payments to a facility for those services unless the Secretary or the State survey agency has certified the facility under this part to provide those services."

The Social Security Act §1919 (g)(2)(A)(iii)(I) states that: "Each nursing facility shall be subject to a standard survey not later than 15 months after the date of the previous standard survey conducted. . . ."

We recommended that FSSA perform on-site monitoring as it relates to C&Ts in accordance with federal requirements.

FINDING 2005 - FSSA-16, TRACKING OF CERTIFICATION & TRANSMITTAL (C&T)

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Provider Health and Safety Standards
Internal Control:	Reportable Condition

In order to be eligible to receive Medicaid payments, long-term care facilities must meet prescribed health and safety standards. The Indiana State Department of Health (ISDH) is responsible for the issuance of Certification & Transmittal (C&T) documents. Among other purposes, C&Ts inform the Medicaid fiscal agent whether or not facilities have met prescribed health and safety standards. EDS may receive several C&Ts for each facility in the course of a year. Not all of the C&Ts received will be for the purpose of recertification. Other than Intermediate Care Facilities for the Mentally Retarded (ICF/MR), EDS does not have a system in place to ensure that only those facilities certified by the Indiana State Department of Health as having met prescribed health and safety standards receive Medicaid payments.

There is a lack of controls in place to ensure that all providers being paid have a current and satisfactory C&T. Upon receipt, C&T documents are logged in the Document Tracking System at EDS and filed in hardcopy facility files. No information is entered into AIMS for long-term care facilities other than ICF/MR. The papers inside provider files are loose-leaf, not in any specific order, and are not indexed. There is no process in place to ensure that all required C&Ts are received and to follow-up on those that are missing. The lack of controls increases the risk of paying providers who do not have a current and satisfactory C&T.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

42 CFR §442.12 states: "Provider agreement: General requirements. (a) Certification and re-certification. Except as provided in paragraph (b) of this section, a Medicaid agency may not execute a provider agreement with a facility for nursing facility services nor make Medicaid payments to a facility for those services unless the Secretary or the State survey agency has certified the facility under this part to provide those services."

The Social Security Act §1919 (g)(2)(A)(iii)(I) states: "Each nursing facility shall be subject to a standard survey not later than 15 months after the date of the previous standard survey conducted . . ."

We recommended that FSSA ensure that a process is implemented to make certain that the most current C&T is in the provider files and to examine files for completeness. If a provider's file does not have a recent C&T, follow-up should be performed with ISDH. The communication process should be enhanced to ensure that C&Ts are received in a timely manner. A list of finished surveys from ISDH should be periodically obtained and compared to hardcopy provider files.

FINDING 2005 - FSSA-17, CONTRACTOR MONTHLY STATUS REPORT STATISTICS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Reportable Condition

The contract between OMPP and EDS requires EDS to maintain controls to achieve results at agreed-upon standards. EDS submits a monthly electronic PDF file report outlining statistics and business activities to illustrate whether or not certain contract requirements have been met. The report is sent to several OMPP employees as well as other contractors who may require the information. EDS reports on the following business areas on a monthly basis: claims and encounters, member and provider relations, finance and third party liability, and systems.

OMPP management does not receive a complete package of detail documentation for review to support statistics presented. Depending on the area that each recipient of the report is responsible for, additional information may be available in the form of reports automatically received or available online. There is no requirement that the OMPP employees receiving the report review and confirm statistics or other information presented. This is an ineffective control over the operations of EDS in confirming that contract requirements are met.

In addition, the monthly report specifies several contract requirements with conclusions as to if the requirement was met or not met during the month reported. Items reported are identified by contract number and a brief description of the requirement. We found that the brief description of the contract requirement does not always coincide with the contract requirement number from the Scope of Work for the most recent contract. The most recent contract became effective January 1, 2004. This was not detected by OMPP despite approximately 20 employees and other contractors receiving this report each month.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

There are provider enrollment unit data entry accuracy rate requirements in the EDS contract. EDS did not retain adequate documentation to support the originally reported calculations of statistics for the provider enrollment unit contained within their monthly status report. The information to support statistics and information presented for provider enrollment in this report was not requested, nor reviewed, by OMPP to ensure that the performance of the contractor is adequately monitored.

45 CFR §92.40 (a) states that: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

45 CFR §92.36 states: "(2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders."

We recommended that FSSA develop written internal control procedures for monitoring contract performance which include identification of information monitored and the communication of monitoring results to OMPP management. OMPP should review the report format for consistency with contract requirements and ensure that OMPP has documented how the contractor is meeting, or not meeting, each of the current contract provisions.

FINDING 2005 - FSSA-18, INACTIVE PROVIDER RECORDS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Reportable Condition

EDS, the Indiana Medicaid fiscal agent contractor, does not terminate the eligibility of inactive provider records. Terminating records would enable efficient database comparisons to license records, assist in cleaning up the database, provide a better estimate of the number of active providers, and may assist in preventing fraud perpetrated against the federal program. As an example, we located an active Medicaid-enrolled provider who has been in the program for nearly 19 years without ever having been paid or submitting any claims.

Contractor requirement PRC-87 of the January 1, 2004, Scope of Work of the EDS contract states: "Periodically purge inactive provider records on a schedule and using criteria specified by the state."

45 CFR §92.36 states: "(2) Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders."

We recommended that FSSA establish a schedule for periodic archival of inactive provider records.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2005 - FSSA-19, ONGOING OUT-OF-STATE LICENSE VERIFICATION

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Reportable Condition

There is no consistent procedure to verify on an on-going basis that the licenses of out-of-state providers enrolled in the Indiana Medicaid program remain active. The process to verify in-state provider license numbers involves a monthly systematic interface with the Indiana Health Professions Bureau (now merged with the Indiana Professional Licensing Agency). The policy manual for provider enrollment states that out-of-state providers are to be end dated at the date of their license expiration date. Out-of-state providers were not consistently found to be end dated when their license came up for recertification. In these cases, there is no procedure to verify licensure other than at the time of initial enrollment. License expiration dates vary by state and medical specialty. License expiration dates for states contiguous to Indiana may be as long as three years between recertifications. In the three years between recertification, disciplinary actions or other events may occur which could render a physician's license invalid. Improper Medicaid payments may be made to providers which bill after this date.

There are several obstacles to the systematic verification for out-of-state licenses. Provider license numbers are not identified in AIMS by licensing state. License numbers were inconsistently entered in AIMS when the provider was enrolled. Some provider license numbers include letters within the license number (such as a postal abbreviation for the state or a specialty abbreviation) or special characters such as hyphens. Some of the entered license numbers are incorrect or incomplete. Therefore, if the numbers were systematically interfaced with another state's licensing data, there would be several exceptions for nonmatches even if the provider's license was active. This would require substantial manual follow-up procedures.

Contractor requirement PRC-9 of the January 1, 2004, Scope of Work of the EDS contract states: "Maintain regular communication with the applicable State agencies to perform certification and licensure verification. Verify certification in other states for out-of-state providers."

42 CFR §440.50 states that the services of physicians and dentists must be "(2) By or under the personal supervision of an individual licensed under State law to practice medicine or osteopathy."

42 CFR §447.45 states: "(f) Prepayment and postpayment claims review. (1) For all claims, the agency must conduct prepayment claims review consisting of--(i) Verification that the recipient was included in the eligibility file and that the provider was authorized to furnish the service at the time the service was furnished . . ."

We recommended that FSSA review the medical license verification process for completeness across all provider types and provide for on-going licensure reviews of out-of-state providers.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2005 - FSSA-20, TIMELY FOLLOW-UP OF LICENSE TERMINATION

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program; State Children's Health Insurance Program (SCHIP)
CFDA Number:	93.778; 93.767
Auditee Contact Person:	Jeanne LaBrecque; Pat Casanova
Title of Contact Person:	Director of the OMPP; Director of SCHIP
Phone Number:	317-234-2407; 317-234-2182
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility; Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

AIMS does not provide a computer field to record the license termination date of providers. For providers with a license that is no longer valid, the end date of the license is not the end date used in AIMS. The end date used in AIMS is the date that the termination letter is sent out and may be several months after the date that the license became invalid.

As the system does not provide license termination dates, identification of services performed after a provider's license became invalid is not readily determinable. Manual processes are relied upon when making the determination as to whether the provider has performed services after the date that his or her license became invalid.

In our review of the license termination process, two providers were identified who received payments for services performed after the date which the provider's license became invalid. Action had not been initiated to recover the overpayments.

The first provider's eligibility was not terminated from AIMS until more than three months had passed after receiving an emergency suspension. The provider was identified in a newspaper article which stated that the provider was under a 90 day emergency suspension for committing possible fraud against Medicaid and private insurers. The emergency suspension has since been extended an additional 90 days. We are questioning claims which were paid for services performed after the date of the provider's emergency suspension in the amount of \$2,356.14.

The second provider's eligibility was not terminated from AIMS until more than 16 months had passed after the date of the company's license expiration. The delays in terminating the eligibility of this provider in AIMS resulted in \$298,604.37 paid for claims with dates of service subsequent to the license expiration.

42 CFR §440.50 states that the services of physicians and dentists must be "(2) By or under the personal supervision of an individual licensed under State law to practice medicine or osteopathy."

45 CFR §92.22 state that: "Grant funds may be used only for: (1) The allowable costs of the grantees, subgrantees and cost-type Contractors. . . ."

Under OMB Circular A-87, a cost must meet the following general criteria to be allowable under Federal awards: be necessary and reasonable for proper and efficient performance and administration of Federal awards and be authorized or not prohibited under State or local laws or regulations.

The total paid to these providers for services claimed beyond the date of license expiration or termination of \$300,960.51 is considered a questioned cost. The federal share may be required to be repaid to the federal government with State funds.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended that FSSA require that AIMS maintain the date on which a provider's license becomes invalid. FSSA should perform monitoring procedures to ensure that license changes are recorded in a timely manner. FSSA should also develop information and communication procedures to ensure timely AIMS eligibility terminations occur.

FINDING 2005 - FSSA-21, PROVIDER ENROLLMENT - CONTRACTOR MONITORING

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Reportable Condition

Monitoring of the EDS provider enrollment function is inadequate. OMPP does not perform on-site reviews for a sample of provider files and does not perform on-site performance assessments of procedures. These monitoring activities would ensure for a sample of files that provider enrollment processes are performed by EDS as stated in their provider enrollment operations manual. On-site monitoring has not been performed since at least June 2004 due to the need to split staff responsibilities with claims processing.

45 CFR §92.40 (a) states that: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

We recommended that FSSA develop procedures in order to monitor the provider enrollment function.

FINDING 2005 - FSSA-22, ADP REVIEW NOT PERFORMED

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Pat Casanova, Jeanne LaBrecque
Title of Contact Person:	Director of SCHIP, Director of OMPP
Phone Number:	317-234-2182, 317-234-2407
Compliance Requirement:	Special Tests and Provisions – ADP Risk Analysis and System Security Review
Internal Control:	Reportable Condition, Material Weakness

The FSSA Office of Medicaid Policy and Planning (OMPP) has not had an ADP system security review conducted for the Indiana Advanced Information Management System (AIMS) since 2002. At that time, an Independent Service Auditor's Report on Controls Placed in Operation and Tests of Operating Effectiveness was obtained for the period January 1, 2002 to June 30, 2002. The review was conducted for the controls relating to the processing of transactions by EDS for AIMS in accordance with standards established by the American Institute of Certified Public Accountants.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Indiana contracts with EDS Corporation to operate the AIMS. The AIMS maintains recipient eligibility data, adjudicates and pays claims to providers, whose records are also maintained in the system. The AIMS operations are material to the Medicaid and SCHIP programs. The absence of documented ADP reviews is considered a reportable condition and material weakness of internal control.

"State agencies shall review the ADP system security of installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices." 45 CFR 95.621(f)(3) "The State agency shall maintain reports of their biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site review." 45 CFR 95.621(f) (6)

We recommended that FSSA have documented review reports for the ADP system, AIMS, in accordance with federal regulations. FSSA should consider having the ADP system reviewed in accordance with accounting standards, as was previously performed, in order to provide the required coverage of the ADP controls, together with tests of the effectiveness, in order to ensure continuous, consistent integrity of the surrounding financial processes and reports.

FINDING 2005 - FSSA-23, AIMS CONTRACTOR ACCESS
ASSIGNMENTS AND CONTROLS NOT MONITORED

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Pat Casanova, Jeanne LaBrecque
Title of Contact Person	Director of SCHIP, Director of OMPP
Phone Number:	317-234-2182, 317-234-2407
Compliance Requirement:	Special Tests and Provisions – ADP Risk Analysis and System Security Review
Internal Control:	Reportable Condition

During the fiscal year ended June 30, 2005, FSSA's OMPP did not monitor the access assignments and associated controls maintained by the contractor for the AIMS. The contractor operates the Medicaid and SCHIP programs for OMPP using AIMS. Monitoring of access assignments is necessary to ensure adequate controls are in operation for the proper segregation of duties and security of records.

"State agencies are responsible for the security of all ADP projects under development, and operational systems involved in the administration of HHS programs. State agencies shall determine the appropriate ADP security requirements based on recognized industry standards or standards governing security of Federal ADP systems and information processing." 45 CFR 95.621 (f) (1)

We recommended that FSSA develop a monitoring plan which would include regular review of the access assignments maintained by the AIMS contractor to ensure proper segregation of duties, and that controls are in operation to ensure that access is changed or terminated corresponding to changes in job positions or terminations, as applicable.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2005 - FSSA-24, OMPP AIMS ACCESS ASSIGNMENTS AND CONTROLS NOT MONITORED

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Pat Casanova, Jeanne LaBrecque
Title of Contact Person	Director of SCHIP, Director of OMPP
Phone Number:	317-234-2182, 317-234-2407
Compliance Requirement:	Special Tests and Provisions – ADP Risk Analysis and System Security Review
Internal Control:	Reportable Condition

During the fiscal year ended June 30, 2005, FSSA's OMPP did not monitor the access assignments it granted for state staff for the AIMS. Monitoring of access assignments is necessary to ensure adequate controls are in operation for the proper segregation of duties and security of records, as well as to ensure that access has been deleted for those who have separated from employment.

The OMPP security manual, AIMS Account Security Guidelines for OMPP, was not in use as the staff person responsible for approving access assignments was not aware of its existence until researching to fulfill our audit request. This manual is considered out of date since documents and profiles were as of April 1999.

"State agencies are responsible for the security of all ADP projects under development, and operational systems involved in the administration of HHS programs. State agencies shall determine the appropriate ADP security requirements based on recognized industry standards or standards governing security of Federal ADP systems and information processing." 45 CFR 95.621 (f) (1)

"State ADP security requirements shall include the following components: (i) Determination and implementation of appropriate security requirements as specified in section (f); (ii) Establishment of a security plan and, as appropriate, policies and procedures to address the following area of ADP security: . . . C) Software and data security; D) Telecommunications security; E) Personnel security." 45 CFR 95.621 (f) (2)

We recommended that FSSA update and utilize the security manual and develop monitoring procedures to ensure the OMPP access assignments are appropriate and current.

FINDING 2005 - FSSA-25, DETAIL ACCOUNTING NOT PRODUCED

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Pat Casanova, Jeanne LaBrecque
Title of Contact Person	Director of SCHIP, Director of OMPP
Phone Number:	317-234-2182, 317-234-2407
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FSSA contracts with a fiscal agent, EDS Inc., to operate the AIMS and perform accounting and reporting functions for the Medicaid and SCHIP programs. The program expenditures are reported in the format that conforms to the federal requirements thru a subsystem known as MARS. The MARS software calculates and classifies the AIMS claims payment transactions, using the associated recipient data and other logic. The data created upon running the MARS is retained by EDS. We consider the MARS to be the expenditure records for the Medicaid and SCHIP programs as this is where the claims are classified. The MARS does not produce reports of the detail transactions to support the totals on the summary reports. This is considered necessary for financial monitoring and to provide a complete audit trail.

"A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost type contractors, must be sufficient to –

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." 45 CFR 92.20(a)

"The computerized accounting system must incorporate features that assure all accounting information is reported accurately and completely." Accounting and Uniform Compliance Guidelines Manual for State Agencies 16:4.

We recommended that FSSA have the contractor produce accounting expenditure reports for the Medicaid and SCHIP programs that support the totals of MARS reports.

FINDING 2005 - FSSA-26, REPORTING SYSTEM WITH OUT OF BALANCE CONDITION

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Pat Casanova, Jeanne LaBrecque
Title of Contact Person	Director of SCHIP, Director of OMPP
Phone Number:	317-234-2182, 317-234-2407
Compliance Requirement:	Allowable Costs/Cost Principles, Reporting
Internal Control:	Reportable Condition

The FSSA fiscal agent contractor, EDS Corporation, uses a Management and Administration Reporting Subsystem (MARS) to produce the CMS 64 report for the transactions it has processed. The EDS MARS reports, used to prepare the federal CMS 64 report, do not reconcile to the payments issued from the AIMS for either the Medicaid or SCHIP programs. We received calculations of the unidentified difference for the five quarters from June 30, 2004 to June 30, 2005. The net total unidentified difference for the Medicaid program resulted from total expenditures reported on the federal reports being over the payments issued by \$12,969,498. The net total unidentified difference for the SCHIP package C program resulted from total expenditures reported on the federal reports being over the payments issued by \$438,997. This represented quarterly error rates of as much as .54% for the Medicaid program and 2.83% for the SCHIP package C.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Identified differences were shown in the reconciliations as a timing difference in recognizing the accounts receivable transactions, whereby the MARS immediately reduces expenditures, which will subsequently reduce payments issued. We noted, however, that there was no breakdown of the receivable timing difference for the effect on the SCHIP package C, which is reported and reconciled separately. As such, some of the identified receivable recognition timing difference listed for the Medicaid could apply to the SCHIP package C.

There is a logical timing difference that occurs in transaction recognition between MARS cutoff, which is that of calendar, and the Finance cutoff, which is for payment date. The effect of the timing differences has not been identified for use in the reconciliations.

EDS has employed a national consultant to begin a project to research and identify the causes of variances between the MARS and AIM Finance reports for use in developing complete reconciliation procedures.

FSSA did not have complete records or file copies of the reconciliations performed by EDS, and had not prepared an ongoing summary of the unidentified variances.

"A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost type contractors, must be sufficient to –

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." 45 CFR 92.20(a)

The Accounting and Uniform Compliance Guidelines Manual for State Agencies (Chapter 1) requires that at all times the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balances should agree.

"Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity." 45 CFR 92.40(a)

We recommended that FSSA require the fiscal agent contractor to reconcile the reporting subsystem to the financial records of payments issued. FSSA should also regularly obtain the EDS reconciliation files, and perform verification procedures of the information presented. Any unidentified variances should be tracked and analyzed for trend purposes. FSSA should obtain further results of identified causes and ascertain that complete a study of transaction calculations in MARS has occurred. Consideration should be given to aligning the payment information to that of the MARS report timing basis.

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2005 - FSSA-27, INCORRECT RATE APPLIED FOR MANAGED CARE

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Pat Casanova, Jeanne LaBrecque
Title of Contact Person	Director of SCHIP, Director of OMPP
Phone Number:	317-232-4390, 317-234-2407
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

Managed care contract rates are established based upon actuary study and acceptance by OMPP. In accordance with 42 CFR 438.6, the rates are then approved by the federal government (CMS) prior to use in the state contracts and submission to EDS for the AIMS computer managed care rate table change. We found that FSSA did not have a process in place to verify that the managed care rates were accurately recorded in the managed care contracts and in the AIMS computer system.

EDS issues payments to the managed care organizations on a monthly basis as calculated by the AIMS from information as to each recipient for each rate category and region. OMPP also did not adequately monitor the payments issued to the managed care organizations to ensure the rates applied were those approved by CMS. We found that OMPP does not review managed care payments, and calculations. While OMPP staff review summary level totals on the monthly financial reports that are prepared by EDS, these do not contain sufficient detail in order to verify the rates paid.

In December 2005, the actuary discovered that an incorrect rate was entered into the AIMS table that had been in effect since January 1, 2005. The rate was entered in the table, however, as it was submitted by OMPP. The rate was also listed incorrectly in all of the state contracts with the managed care organizations. The error found was in the rate for children ages 6 to 12 for the central region of the state. The contract rate paid was \$82.57 per month per child, which was \$10 over the approved rate calculated by the actuary.

The actuary calculated the total overpaid for the child rate category error, from January 1, 2005 thru December 31, 2005, as \$ 202,805. The federal share of the overpaid amount is \$150,068. This was calculated using the SCHIP cost share.

We compared all contract rates for 2004 and 2005 to the approved actuary rates and found two additional errors in the central region rates for 2005. The contract rate for newborns under age one, was eight cents over the approved rate and the rate for preschoolers, age one to five, was under the approved rate by three cents. Further analysis of the effect of these variances was not considered necessary.

"All payments under risk contracts and all risk-sharing mechanisms in contracts must be actuarially sound." 42 CFR 438.6 (c) (2)

The federal share of the excess payments issued is considered as questioned costs which may be required to be repaid to the federal government. The contract rates in error remained in effect at the time of our review in March 2006. Until such time as contracts are amended, or new rates are approved, further calculations of the amount overpaid will also be required.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We recommended that FSSA establish a control procedure whereby the state contract rates and the AIMS managed care rate tables are compared to the approved rates. FSSA should also establish controls to verify that the monthly payments to managed care organizations accurately reflect approved rates. Procedures performed should be documented, with results transmitted to management.

FINDING 2005 - FSSA-28, MANAGED CARE PAYMENTS NOT SUPPORTED

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Pat Casanova, Jeanne LaBrecque
Title of Contact Person	Director of SCHIP, Director of OMPP
Phone Number:	317-232-4390, 317-234-2407
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition, Material Weakness

For the audit period of July 2004 to June 2005, supporting documentation for two monthly payments issued to all of the contracted managed care organizations was not made available for audit. As such we could not verify the accuracy of the payments issued. The AIMS calculates the managed care payments based upon the recipient data and rate tables on file. A monthly capitation report is generated that provides the detail for each recipient and rate paid. A summary at the end of the report agrees to the total payment issued to the managed care organization. There were no capitation reports retained in the system to support the payments issued on December 22, 2004, and February 23, 2005.

The capitation reports for managed care which were available were each run a few days prior to the payment issuance, except for the payment issued in January 2005. The payments issued on January 26, 2005, agreed to capitation reports which were run on February 15, 2005, and which stated they were for the February 2005 coverage. This indicates that the January payment was issued in advance of the coverage period, which is in noncompliance with the contract provisions for payments in arrears. Due to this change in timing, the capitation coverage periods for December 2004 and January 2005 are not documented. A capitation report for January was run on January 19, but did not agree to any payments issued.

The fiscal agent contractor EDS, who operates AIMS, has not identified a cause for the missing reports or explained the timing of the reports retained. OMPP did not monitor these payments or reports.

As there was no documentation available to support the payments issued to managed care organizations on December 22, 2004, and February 23, 2005, we consider the payments as questioned cost. The payments issued total \$91,688,595. The federal share, calculated applying the normal Indiana Medicaid matching rate, is \$57,562,100 and may be required to be repaid to the federal government using State funds.

"A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost type contractors, must be sufficient to –

STATE OF INDIANA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." 45 CFR 92.20(a)

"Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity." 45 CFR 92.40(a)

"The computerized accounting system must incorporate features that assure all accounting information is reported accurately and completely." Accounting and Uniform Compliance Guidelines Manual for State Agencies 16:4.

We recommended that FSSA identify the cause of the missing reports and misaligned coverage periods. The recipient coverage periods from December 1, 2004 thru February 28, 2005, should be re-constructed with comparisons made to payments issued, actuary data and system information. The data should be confirmed with the managed care organizations to ensure that coverage was in place for the identified recipients. FSSA should seek collection for any payments found to be issued in amounts over the actual coverage in force. FSSA should further ensure that controls for this process are developed and in operation to prevent a recurrence. In addition the FSSA controls should be developed to monitor the payments issued and capitation coverage performance.

FINDING 2005 - FSSA-29, MANAGED CARE DELIVERIES

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person	Director of OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

Managed care organizations are paid a contracted fixed fee for each newborn delivered. Claims are submitted by the managed care organization for the mother's delivery and processed for payment through the AIMS. These are accumulated and paid together with the monthly fees for managed care recipients. The capitation reports that support the total payment issued to each managed care organization include a list of delivery payments. The delivery payments reported, however, do not reference the claim document, nor is the date of delivery given. It only lists the recipient identification number and provider number.

"A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost type contractors, must be sufficient to –

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." 45 CFR 92.20(a)

We recommended that FSSA ensure that the managed care capitation payment reports provide the reference to the claim document paid. Consideration should also be given to reporting the delivery date, which is to correspond to the contract rate paid.

FINDING 2005 - FSSA-30, MEDICAID BANK RECONCILIATIONS

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Pat Casanova, Jeanne LaBrecque
Title of Contact Person	Director of SCHIP, Director of OMPP
Phone Number:	317-232-4390, 317-234-2407
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition, Material Weakness

Indiana has a contracted fiscal agent for the Medicaid and SCHIP programs, EDS Corporation. The fiscal agent operates the AIMS, adjudicates and pays claims to providers, and maintains a bank account. We reviewed the bank statements and reconciliations performed by EDS for the period March through June 2005. The reconciliations were only of the monthly transactions and were not complete reconciliations using the total general ledger balance, outstanding checks and showing reconciliation to the bank balance. As a result, while monthly transactions are shown as compared between source records and the bank, we cannot ascertain that the records in total are in balance with the bank, or what the variance would be.

We further found that there is no process in place for FSSA to compare the state accounting transaction records maintained for the Medicaid program to the bank statements.

Reviews of bank statements were performed by FSSA budget section, but were not formally documented. In March 2006, we were informed that the EDS bank statements and reconciliations had not been reviewed since July 2005.

There are no written procedures for the process of monitoring the EDS bank and financial reporting.

"A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost type contractors, must be sufficient to –

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(Continued)

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." 45 CFR 92.20(a)

"In addition to supporting documentation required for the state accounting system, some agencies maintain additional subsidiary records. These records may be so extensive as to constitute the agency's accounting system, particularly for financial reporting requirements. The agency provision of an effective accounting system would entail internal control structure elements, as well as accurate and functional forms and reports. An agency's accounting system, forms, and records must be approved by the State Board of Accounts. It should be noted that the Auditor of State system and reports issued constitutes the official record of the budget, cash receipts and disbursements. As such, the agency's own accounting system should operate congruently with the state system with reconciliations of as much information as is practicable. At all times, the agency's manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank or Auditor's balance should agree . . ." Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1.

We recommended to FSSA that complete bank reconciliations be performed for the account maintained by the fiscal agent. Written procedures should be developed regarding the review of the bank statements and reconciliations which include timely performance, documenting such reviews, assuring that identified errors are corrected, and comparisons to state accounting records for the Medicaid program.

Findings 2005-DWD-1 and 2005-DWD-2 relate to a program administered by the Indiana Department of Workforce Development (DWD). Their response to the findings starts on page 266.

FINDING 2005 - DWD-1, INACCURATE REPORTING

Federal Agency:	Department of Labor
Federal program:	Unemployment Insurance
CFDA Number:	17.225
Auditee Contact Person:	Monty Combs
Title of Contact Person:	Deputy Commissioner/Controller
Phone Number:	317-233-1463
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition

During our audit of the ETA 581 Contribution Operations report prepared for the Unemployment Insurance grant, we found inaccurate amounts submitted. The amounts for the electronic ETA 581 federal report are extracted from the Department of Workforce Development's Cadet Mainframe System with the exception of the beginning balance. The federal reporting system automatically posts the prior quarter's ending balance to the ETA 581 as the current quarter's beginning balance and does not allow for changes to this amount.

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

We found that periodically the Mainframe does not correctly report the current quarter's beginning balance as the previous quarter's ending balance. According to the individual who submits the federal report, there is a flaw in the Mainframe reporting system. This system flaw was first documented in 1998, however, steps were not taken to correct the problem. Even though there is a known flaw in the agency's system, the individual makes adjustments to the ETA 581 report so that it will match the agency's Mainframe balances. As mentioned before, changes cannot be made to the ETA 581's beginning balance, so the individual makes adjustments to the contribution amounts on the submitted federal report, in order to have that report's ending balance match the ending balance as reported by the Mainframe report.

Our review of the ETA 581, for the quarter ended March 31, 2005, found that a positive adjustment of \$8,448 was made to the Liquidated amount for the Contributory Employers' Receivables. Also, on the same report, a \$97 positive adjustment was made to the Liquidated amount for the Reimbursing Employers' Receivables. These adjustments implied that DWD received funds from employers that it did not. This resulted in DWD incorrectly reporting its receivables for both Contributory and Reimbursing Employers to the federal government.

While the adjustments noted were immaterial, DWD should not make adjustments to the federal report in order to have it agree with the incorrect Mainframe report. The Mainframe report as a whole should be investigated by DWD. Correct contribution amounts should always be submitted on the ETA 581 report.

29 CFR 97.20 provides that fiscal control and accounting procedures of the state must be sufficient to permit preparation of the required reports. Additionally, effective control and accountability must be maintained for all grant assets.

We recommended that the Department of Workforce Development investigate the Cadet Mainframe System and determine the reason for the incorrect reporting of the quarterly beginning balance.

FINDING 2005 - DWD-2, REPORT MONITORING

Federal Agency:	Department of Labor
Federal program:	Unemployment Insurance
CFDA Number:	17.225
Auditee Contact Person:	Monty Combs
Title of Contact Person:	Deputy Commissioner/Controller
Phone Number:	317-233-1463
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition

The Indiana Department of Workforce Development (DWD) is required to submit ten reports to the federal government for the Unemployment Insurance grant. During our review of these reports, we found that two of these reports were not reviewed by an independent party prior to submission to the Department of Labor. The ETA 227 Overpayment Detection and Collection Activities report and the ETA 581 Contributions Operations report are prepared and submitted without any independent review. The lack of independent review is a control weakness, which could result in the improper reporting of financial information to the federal agency.

28 CFR 66.20 provides that a State's financial management systems must maintain accurate, current and complete disclosure of the financial results of financially assisted activities. Additionally, effective control and accountability must be maintained for all grant assets.

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(Continued)

We recommended that DWD implement procedures to review the ETA 227 Overpayment Detection and Collection Activities report and the ETA 581 Contributions Operations report prior to submission to the U.S. Department of Labor. The review should be completed by someone independent of the preparation and submission functions.

Finding 2005-IDHS-1 relates to a program administered by the Indiana Department of Homeland Security (IDHS); see also note 8 under the Notes to Schedule of Expenditures and Federal Awards. Their response to the finding starts on page 270.

FINDING 2005 - IDHS-1, PASS-THROUGH ENTITY RESPONSIBILITIES

Federal Agency:	Department of Homeland Security
Federal program:	Public Assistance Grant
CFDA Number:	97.036
Auditee Contact Person:	Rosemary Petersen
Title of Contact Person:	Director
Phone Number:	317-233-6507
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Reportable Condition

The Indiana Department of Homeland Security (IDHS) provides funding to various subrecipients for repair and replacement of disaster damaged facilities as part of its Public Assistance grant. According to OMB Circular A-133 Subpart D Section 400(d)(4), the pass-through entity is responsible to: "Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year." Also, Section 400(d)(5) requires the pass-through entity to: "Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action." Finally, Section 400(d)(3), the pass-through entity is responsible to: "Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

We found that the program director had not received any A-133 reports; was not aware if the agency had received any reports; or followed-up to determine why. Upon further inquiry we found that the assistant controller had received some A-133 reports but had not forwarded them to the program director. Also, the assistant controller did not have a tracking mechanism in place to determine if the agency had received all required A-133 reports or letters.

We recommended that IDHS implement a process to ensure that all required A-133 reports are received. Additionally, a process should be in place to follow-up on any findings presented in the A-133 reports that are related to this program's funding. Consideration should be given to including these reports in the monitoring process.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 96 - FSSA-33, FUND BALANCES – CHILD SUPPORT ENFORCEMENT FUND CENTERS

Federal Agency: Department of Health and Human Services - ACF
Federal Program: Child Support Enforcement Program (IV-D)
CFDA Number: 93.563
Auditee Contact Person: Todd M. Tolson
Title of Contact person: Legislative Director, Division of Child Services
Phone Number: 317-232-4439

Finding:

The Child Support Bureau of Family and Social Services Administration is responsible for the implementation of the Child Support Enforcement Program (IV-D) (93.563), including the collecting and the distribution of child support payments. The Bureau receives collections that must be either held as reimbursements to Federal, County and State governments to offset AFDC costs or forwarded to the child support client. 45 CFR S 302.15 states that the IV-D agency will maintain the records necessary to identify the amount, source, and distribution of collections.

As of June 30, 1996, Family and Social Services was holding \$34,861,131 in several accounts identified for distribution to select entities or custodial parents. A reconciliation tying these funds to the Terminal Communication Access Method (TCAM) system which identify the amount, source and distribution had not been completed by the agency. We requested an accounting to identify the proper recipients of these funds. The agency responded by identifying potential reconciling items as follows:

<u>Description of Funds Held</u>	<u>Amount</u>
Federal AFDC Reimbursements	\$ 6,827,069
State AFDC Reimbursements	3,456,123
County AFDC Reimbursements	919,195
Other Reimbursements in Process	4,086,144
Returned Monies Held by Agency	2,932,082
Potential Refunds to Payors and Other Undistributed Funds	10,387,617
June, 1996 Receipts Distributed in July, 1996	5,984,327
Unexplained Difference	<u>286,574</u>
Total	<u>\$ 34,879,131</u>

We recommended that the funds in these accounts be reconciled to detailed source records. We also recommended that an aging account be maintained for funds that are held because the proper recipient either cannot be identified or located. We instructed that any funds deemed to be abandoned property as detailed in Indiana Code 32-9-1.5-20 and 4-10-10 be transferred to the Attorney General's Unclaimed Property Division.

Status of Finding as of October 2005:

The Child Support Bureau hired an Accountant to work on a variety of issues relating to reconciliation of our child support accounts. The Accountant has identified \$337,347.91 that needs to be transferred out of the TCAM (502) account into the ISETS 511 account. This problem occurred because deposits were mistakenly credited to the 502 account (deposits occurred after September 1999, when the 502 account was closed). The deposits should have been credited to the 511 account.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

The Child Support Bureau is completing the validation of this amount and plans to meet with FSSA Financial Management staff in November 2005 to request this money be transferred. When this transfer is complete, the remaining balance in the 502 account will be \$493,638.27.

Additionally, the Child Support Bureau Accountant strongly believes that further research will show that the remaining money can be transferred once we are able to reconcile the system level account distributions with the Auditor's system.

Child Support Bureau has requested additional resources from the state budget authority to expedite the research to conclude this work.

FINDING 99 - FSSA-7, ISETS INFORMATION TECHNOLOGY (IT) CONTROLS

Federal Agency:	Department of Health and Human Services
Federal Program:	Child Support Enforcement
CFDA Number:	93.563
Auditee Contact Person:	Todd M. Tolson
Title of Contact person:	Legislative Director, Division of Child Services
Phone Number:	317-232-4439
Compliance Requirement:	Special Tests and Provisions
Internal Control:	Reportable Condition, Material Weakness

Finding:

The Indiana Support Enforcement Tracking System (ISETS) is the computer system used to administer the collection and distribution of child support payments and manage other support enforcement activities. Our review of this system found the following:

Accounting Procedures and Controls

45 CFR 74.21 requires that the financial management system have effective control over and accountability for all funds. We found that the accounting of child support funds was inadequate. Deficiencies include the inability to balance and reconcile child support receipts and disbursements processed at the State level, inaccurate subaccount balances that track support delinquencies and Unreimbursed Past Public Assistance, and inaccurate tax intercept processing. These deficiencies were communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that FSSA correct the accounting procedures and control deficiencies as documented in the management letter.

Cash Receipts Handling

45 CFR 302.20 states in part: "The IV-D agency will maintain methods of administration designed to assure that persons responsible for handling cash receipts of support do not participate in accounting or operating functions which would permit them to conceal in the accounting records the misuse of support receipts. Such methods of administration shall follow generally recognized accounting standards." We found deficiencies in the areas of batching, balancing, chain of custody, and timely deposit of cash receipts processed at the State level. These deficiencies were communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

We recommended that FSSA correct the cash receipts handling deficiencies as documented in the management letter.

Security

45 CFR 95.621(f) states that: ". . . state agencies shall determine the appropriate ADP security requirements based on recognized industry standards or standards governing security of Federal ADP systems and information processing." 45 CFR 95.621(h) also requires the designation of an Agency ADP Security Manager and the performance of periodic risk analyses. FSSA has not designated an ADP Security Manager nor has a risk analysis been performed for ISETS. These and other information technology control deficiencies within ISETS security implementation were communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that FSSA designate an ADP Security Manager, conduct periodic risk analyses of ISETS, and correct the security implementation deficiencies as documented in the management letter.

Child Support Data Supplied to the Welfare System

45 CFR 307.10.b.10 states that child support data should be transmitted to the State's TANF system. Although such a transfer is occurring, we found errors in the data transmitted. Deficiencies in the transfer were communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that the transfer of child support data to the welfare system be corrected as documented in the management letter.

Verification of Social Security Numbers

45 CFR 307.10.b.1 and 2 states that the Social Security Numbers (SSNs), names, and dates of birth for Absent Parents and Custodial Parents should be verified with Federal, State, and local agencies. We found that the SSNs, names, and dates of birth of ISETS participants have not been verified. This deficiency was communicated to FSSA management in a letter dated March 27, 2000, based upon the results of an Information Technology Services audit performed by the Indiana State Board of Accounts.

We recommended that FSSA verify SSNs, names, and dates of birth as documented in the management letter.

Status of Finding as of October 2005:

A number of the ISETS programming changes have been made and activated as of April 2004. Additional changes were put into production in July 2004. As these changes were put into production, internal procedures were addressed and written to establish acceptable processes for the tracking of child support payments. A number of the changes were put on hold as of September 2004 because of a change in vendor. Child Support Bureau does not have a projected completion date for the remaining changes due to the comprehensive nature of the remaining modifications, limited resources and other ISETS priorities. The status of each item is as follows:

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

- Agency Disbursement changes completed in April 2004;
- Foster Care functionality completed in April 2004;
- Adjustment process changes that added edits in the adjustment process completed in July 2004;
- Share reimbursement recoupments and disbursements at the State completed in July 2004;
- Auditor Warrants functionality was partially completed in May 2004. Child Support Bureau is working with the contractor to establish a schedule to run the previous year's (1995 to present date) auditor files against ISETS to update the warrant status on ISETS. Once the warrant status is updated for the old files, we will initiate procedures to run current monthly files against ISETS to keep warrant status up-to-date. The remaining portion is put on hold because of reasons enumerated above; and
- Daily Book Balancing and Monthly Reconciliation has been put on hold because reasons enumerated above.

FINDING 2000 - FSSA-1, LACK OF AND IMPROPER SUPPORTING DOCUMENTATION

Federal Agency:	Department of Health and Human Services
Federal Program:	Adoption Assistance Program
CFDA Number:	93.659
Auditee Contact Person:	Todd M. Tolson
Title of Contact person:	Legislative Director, Division of Child Services
Phone Number:	317-232-4439
Compliance Requirement:	Eligibility
Internal Control:	Reportable Condition

Finding:

45 CFR 1356.40 lists requirements that a state must meet in order to participate in the Adoption Assistance Program. FSSA has in its Child Welfare Manual detailed instructions that should be followed so that the agency will be in compliance with these requirements.

Paragraph 807 of the Manual requires form SF2973 (Application for Adoption Assistance) to be completed by the adoptive parent(s), and signed by the Director of the County Office of Family and Children (OFC), for each child prior to the final decree of adoption. However, in 3 of the 25 cases tested this form was executed after the final decree of adoption, and in 2 cases the form was not found, for a total of 20% noncompliance.

Paragraph 808 of the Manual requires form SF2976 (Adoption Assistance: Child Certification) to be completed by the Director of the OFC for each child prior to the final decree of adoption. However, in 4 of the 25 cases tested this form was executed after the final decree of adoption, and in 2 cases the form was not found, for a total of 24% noncompliance.

Paragraph 809 of the Manual requires form SF2974 (Adoption Assistance Agreement) to be completed by the adoptive parent(s) and signed by the Director of the OFC prior to the final decree of adoption. However, in 4 of the 25 cases tested this form was executed after the final decree of adoption for a 16% noncompliance. Also, paragraph 814 of the Manual requires this form to be renewed biennially and whenever there is a change in the amount of payment. However, in 4 of the 25 cases tested the current form was not found for a 16% noncompliance.

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(Continued)

Paragraph 816.2 of the Manual requires that copies of forms SF2973, SF2974 and SF5374 be submitted to the Central Office Financial Management. From there they are routed to the Central Eligibility Unit for filing. The method used for filing documentation sent in by the OFC is by date received. In retrieving any case record it becomes impracticable to determine the date of receipt and, therefore, to be able to locate any particular record. In our testing for documentation controls we were not able to locate copies of documentation from the test cases that were to have been submitted to the Central Office by the OFC because of the filing method being used.

We recommended that FSSA complete and process forms in compliance with the Child Welfare Manual and maintain proper documentation to support the Adoption Assistance Program. We also recommended that documentation be filed in such a way that allows for an adequate audit trail.

Status of Finding October 2005:

The draft manual section has not been released. It has not been released because a structured policy and practice analysis is currently underway that will result in identifying gaps in practice and procedure which will result in the implementation of new policy and training. AAP training usually occurs in two regions of the state and in Marion County. Each year training is provided as one of the breakout sessions to the Foster Parent Conferences.

As a part of the analysis, changes to the Department of Child Services' (DCS) data system, ICWIS will occur. Currently DCS is working with ACF on a redesign to ICWIS to become SACWIS compliant. As a part of the redesign it is envisioned that the documents and forms required will be included in the data system with edits that will enforce the rules to assist in preventing these audit findings. The redesign effort will not be completed until late 2007.

While the analysis, recommendations and data system changes are in process and prior to rollout of new policy training a monthly ICWIS tip of the day will be sent to all ICWIS users. These tips of the day will explain when adoption assistance forms need to be executed.

It has been determined that there is no reason for Central Office Child Welfare to receive a copy of the AAP agreement. State Board of Accounts (SBOA) needs the entire case to complete an audit not just the agreement. The case file is located at the local office not central office. The entire case file is sent from the local office to central office so that SBOA can complete the audit. Since there is no need for these forms in central office, this step will be eliminated thus eliminating the need for a new filing system.

FINDING 2000 - FSSA-2, OVERPAYMENT OF ADOPTION ASSISTANCE SUBSIDIES

Federal Agency:	Department of Health and Human Services
Federal Program:	Adoption Assistance Program
CFDA Number:	93.659
Auditee Contact Person:	Todd M. Tolson
Title of Contact person:	Legislative Director, Division of Child Services
Phone Number:	317-232-4439
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Reportable Condition

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

Finding:

42 USC 673(a)(3) requires that adoption assistance subsidy payments not exceed the foster care maintenance payment. As stipulated in paragraph 810.3 of FSSA's Child Welfare Manual, FSSA's policy on the limitation on payments under the Adoption Assistance Program (AAP) is 75% of the county's rate for foster care per diem. Any amounts paid by the counties over this limitation is to be born by the county.

We found that two of the twenty-five payments tested were in excess of the 75% allowable amount. One, a case in Jennings County, was overpaid by \$248.02 during the month tested, and another, a case in Vigo County, was overpaid by \$142.97. Neither of these overpayments exceeded 100% of the foster care maintenance payment. We expanded our testing of payments in these two counties. In Jennings County we found the same amount of overpayment for the same child for the additional month tested. In Vigo County we found a different child was overpaid \$775.07 for the additional month tested. This overpayment was a violation of both the State 75% policy and the 100% Federal requirement. The allowable foster care maintenance payment at 100% was \$571.91 and so the overpayment exceeded the Federal threshold by \$203.16.

Through inquiry we found that the Central Office did not review for payments in excess of limitation either on a systematic or sample basis. Further, we found that while reviews are completed by the agency's three state-wide consultants, these reviews are completed on a special case basis rather than systematically.

We recommended that the payments from the AAP not exceed limitations. We also recommended that a system of review to detect payments in excess of limitations be implemented.

Status of Finding October 2005:

Our plan is to analyze AAP policy and procedure through a structured policy and practice. This analysis is currently underway and will result in identifying gaps in practice and procedure which will result in the implementation of new policy and training.

As a part of the analysis, changes to the Department of Child Services' (DCS) data system, ICWIS will occur. Currently DCS is working with ACF on a redesign to ICWIS to become SACWIS compliant. As a part of the redesign it is envisioned that the AA agreement will be completed in ICWIS and the ongoing negotiated monthly payment will be validated through a new unit, the Centralized Eligibility Unit prior to finalization. Upon finalization, the data system will automatically move the agreement from the foster care case to the adoption assistance case. Payments will be made against the amount that is in the agreement with edits that will enforce the rules to assist in preventing this audit finding. The redesign effort will not be completed until late 2007.

The new unit, the Centralized Eligibility unit should be operational mid 2006. At that time, some components of the above enhancement will be operational to assist in eliminating this audit finding.

STATE OF INDIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

FINDING 2000 - FSSA-3, FOSTER CARE PROVIDER LICENSURE:

Federal Agency:	Department of Health and Human Services
Federal Program:	Foster Care Program
CFDA Number:	93.658
Audit Contact Person:	M.B. Lippold
Title of Contact Person:	Program Director, Division of Child Services
Phone Number:	317-232-4435
Compliance Requirement:	Eligibility
Internal Control:	Reportable Condition, Material Weakness

Finding:

42 USC 671 and 672, and the approved Indiana State Plan both state that Foster Care Program payments may be made only to properly licensed or approved providers. We reviewed ten foster children cases to determine if licensure controls were in place. We found that five providers were not properly licensed. We also were not able to determine for an additional case as the case file could not be found.

Through inquiry we found several control issues. During our audit period the automated system known as the Indiana Child Welfare Information System used for data eligibility collection (which includes licensing status) was not linked to either county or central office accounting systems. Reliance had to be placed on manual forms of communication to stop ineligible payments. In addition, the central office did not review to ensure that payments were made only to properly licensed or approved providers, either on a systematic or sample basis. Further, we found that while reviews are completed by the agency's three state-wide consultants, these reviews are completed on a special case basis rather than systematically.

We recommended that controls be implemented to ensure payments are made only to properly licensed or approved providers.

Status of Finding as of October 2005:

A number of initiatives have begun which once completed will ensure payments are made only to properly licensed providers. These initiatives are being implemented in several phases. The first phase was implemented July 2005 in which payments to providers are now made from the SACWIS system, ICWIS. The bookkeeper must identify the correct provider to make the payment on behalf of a child. The system identifies if the provider is an active resource for the time period of the payment. If they are an active foster home provider, then the payment is allowed. If they are an active facility provider that has a valid IV-E rate for the time period, the payment is allowed.

The second phase would be to interface with the six large counties payment systems so that they can access the ICWIS schedule of payments and have the ability to work in the same manner as phase one. The third phase would be to add the resource ID to the payment selection window and once a provider is chosen, the resource ID and license period would print on the schedule of payments. When the schedule of payments is sent to financial management for reimbursement, they would know who it was appropriate to reimburse based on the license information. In the fourth phase, Department of Child Services is working with ACF on a redesign to ICWIS to become SACWIS compliant. In this phase, one of the functional requirements would force the schedule of payments to validate the foster home and facilities are licensed for the time period of the payment before allowing. If the foster home or facility is not licensed, the county would have the option to pay from state funds and the payment would be marked as such thus eliminating the possibility of federal reimbursement. The fourth phase would not be implemented until late 2007.

STATE OF INDIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

FINDING 2000 - FSSA-5, CHILD SUPPORT ENFORCEMENT PROGRAM FEDERAL

Federal Agency:	Department of Health and Human Services - ACF
Federal Program:	Child Support Enforcement Program (IV-D)
CFDA Number:	93.563
Auditee Contact Person:	Todd M. Tolson
Title of Contact person:	Legislative Director, Division of Child Services
Phone Number:	317-232-4439
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition, Material Weakness

Finding:

Collections of child support by the central office of FSSA are deposited with the Treasurer of State. These child support funds are separately accounted for within the State's accounting system which is maintained by the Auditor of State. The Treasurer of State reconciles the deposits to the State accounting system. The State accounting system is the official record for both the collections and disbursements of child support funds made by the central FSSA office.

The collection and disbursement of child support funds are also entered on the Indiana Support Enforcement Tracking System (ISETS) which maintains detailed information for each child support case.

We found that amounts recorded on the federal reports are pulled from both of these sources. However, there is no reconciliation of ISETS transactions and balances on the State's accounting system. (Details of possible reconciling items were communicated to FSSA management in a letter dated March 27, 2000.)

In addition, ISETS produces the WEAAC224 - Daily Book Balancing report which documents the balance of funds remaining within ISETS on a daily basis. At the counties the report is used to support the reconciliation of ISETS to their bank accounts. The left side of the report calculates the balance at the end of the day by taking the prior day's balance and applying the total receipts, disbursements, and other transactions processed for the day. The right side of the report breaks the balance down into undistributed receipts (held items) and undistributed checks (the items that will be in the next check run). The left side balance should always match the right side balance. Although the report balances for funds processed at the counties, it does not balance for funds processed at the State. At June 29, 2000, there was a difference between the two balances of \$43,635,881.

Since we were not able to verify the ISETS transactions and balances to the official Auditor of State records, we were not able to determine the reliability of those ISETS amounts used in the federal reports.

45 CFR 74.21 defines the financial management standards for child support enforcement programs. The code requires that the financial management system provide effective control and accountability for all funds.

To ensure accurate and reliable federal reporting, we recommended that FSSA strengthen the accounting procedures and controls over the above areas as required by 45 CFR 74.21.

STATE OF INDIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

Status of Finding as of October 2005:

A number of the programming changes necessary to strengthen the accounting procedures and controls to ensure accurate and reliable federal reporting were put into production in July 2004. The final reconciliation enhancements for Auditor Warrants and Book Balancing have been put on hold because of lack of resources and other ISETS priorities. Child Support Bureau has requested additional resources from the state budget authority to address this. Once these additional resources are in place, Child Support Bureau will be able to project a completion date for the remaining enhancements.

FINDING 2001 - FSSA-3, PASS-THROUGH ENTITY
RESPONSIBILITIES, DIVISION OF MENTAL HEALTH

Federal Agency:	Department of Health and Human Services
Federal Programs:	Prevention and Treatment of Substance Abuse
CFDA Numbers	93.959
Auditee Contact Person:	Cathy Boggs
Title of Contact Person:	Director, DMHA/FSSA
Phone Number:	317-232-7860
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Reportable Condition, Material Weakness

Finding:

The Division of Mental Health (DMH) at FSSA contracts with and provides funding to various providers for community mental health services. Part of the funding provided comes from the Block Grant for Prevention and Treatment of Substance Abuse (SAPT). In addition, these providers may receive funding from various other sources, including federal funds from other FSSA divisions.

According to OMB Circular A-133 Subpart D Section 400(d)(4), the pass-through entity is responsible to: "Ensure that subrecipients expending \$300,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year." Also, Section 400(d)(5) requires the pass-through entity to: "Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action."

DMH has not reviewed any of the subrecipient A-133 audit reports received since November 2000 and has not sent any reports on to FSSA Audit Services for a fiscal review. Thus, no determination has been made to confirm that the entities had an A-133 audit performed and no management decisions have been issued concerning any potential audit findings.

According to OMB Circular A-133 Subpart D Section 400(d)(3), the pass-through entity is responsible to: "Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."

DMH staff performs on-site programmatic reviews of subrecipients and reports those findings to the subrecipient. DMH did not request that subrecipients correct items of noncompliance and has not established a policy requiring subrecipients to report corrections made within a specified period of time. This is a lack of control over the corrective action and resolution of findings of noncompliance by the subrecipients.

STATE OF INDIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

We recommended that DMH review and follow up on findings of A-133 audit reports of sub-recipients to ensure compliance with OMB Circular A-133. We also recommended that DMH request that subrecipients correct items of program noncompliance and provide documentation within a specified period of time.

Status of Finding as of October 2005:

DMHA has continued to work with the State Board of Accounts and FSSA Audit to update the recipient audit log to track the receipt and review of sub recipients' A-133 audit reports. DMHA is currently keeping the audit log, following up on delinquent audits, and forwarding the audits to Audit Services within two weeks of receipt. DMHA is committed to maintaining the audit log and ensuring that audits are forwarded to Audit Services as outlined in the procedure that has been developed in collaboration with FSSA Audit and the State Board of Accounts.

Audit Services prioritizes each independent audit as it is received and thoroughly reviews all audits with audit findings or other high risk indicators. Feedback is sent to the providers on all reviewed audits. Follow-up with the provider and/or audit firm is done when questions arise or additional information is required. Program areas are also notified when concerns arise from the desk reviews. A sampling of the low risk audits is also done and appropriate feedback and follow-up is done.

FINDING 2002 - FSSA-3, TITLE XX AND VALIDATION OF DAY SERVICES CLAIMS

Federal Agency:	Department of Health and Human Services
Federal Program:	TITLE XX
CFDA Number:	93.667
Auditee Contact Person:	David Gootee
Title of Contact Person:	Director, Fiscal Services
Phone Number:	317-233-3828
Compliance Requirement:	Allowable Costs/Cost Principles, Subrecipient Monitoring
Internal Control:	Reportable Condition, Material Weakness

Findings:

The Bureau of Developmental Disabilities Services (BDDS) is a part of the Division of Disability, Aging, and Rehabilitative Services (DDARS) within FSSA. BDDS is responsible for the planning and administration of services in community based, residential alternatives for those who meet the criteria of developmentally disabled. The major goal of the Bureau is to support independent living in the least restrictive setting possible for the recipient. To fulfill its goal a variety of services are offered through approved providers. This includes services identified as community day services (i.e., facility-based sheltered employment, transportation, group habilitation, group speech therapy, etc.). Title XX is the funding source used by FSSA to pay providers for services that are identified as community day services. During our audit of Title XX we found internal control weaknesses in the procedures used by FSSA to determine the validity, appropriateness, and necessity of day services claims from providers.

FSSA requires that day service providers maintain sufficient documentation to support the claims that are presented to the State for payment of services. However, FSSA does not request this documentation at the time of payment for validation. Instead, FSSA relies on front and back end processes to provide assurance. We found that these processes are not applied consistently to day services.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

A front end process that BDDS utilizes to ensure appropriate and reasonable services for the developmentally disabled is the developmentally disabled recipient plan. This plan details the appropriate services that will enable a recipient to meet the goal of independent living. Incorporated in the plan is a budget for the detailed services. However, a developmentally disabled recipient only has a plan if the recipient is receiving State funding for residential services or Medicaid Waiver funding. A plan is not required for a recipient receiving day services only. Furthermore, if a recipient has a plan and is receiving day services, the day services portion does not have a budget. This means that for day services funding there is no budgetary control per recipient. Whereas those services that have a budget are reviewed by FSSA's Financial Management before the payment of a claim on behalf of a recipient, this cannot be done for day services. In addition, while some day services are required to have a limit on the number of units allowed per recipient, this is tracked by the provider and not submitted to FSSA.

A back end process that is utilized by FSSA is the on-site review by FSSA's Audit Services. Audit Services is to determine whether or not a provider is in compliance with a completed contract. When a provider is selected, Audit Services does review for allowable costs and sufficient supporting documentation. However, as provider selection is a risk based approach, not all providers will have an on-site review. Also, as the personnel in Audit Services are not experts in the needs of the developmentally disabled, Audit Services may not be able to determine the appropriateness or necessity of a day service. In addition, Audit Services reviews transactions after the close of the contract period. While this may be used as one part of a system of assurance of the validity of claims, it is not a timely method and does not guarantee that all providers will be adequately reviewed.

We found that there is no substantial verification of the validity of day services claims at the time of payment processing. We also did not find consistent compensating controls that would provide assurance that the recipient was receiving appropriate and reasonable services. We recommended that FSSA implement adequate controls to assure the validity of Title XX expenditures for day services.

45 CFR 96.30 states that: ". . . a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditures of its own funds."

45 CFR 96.31(b)(2) states that the State shall: "Determine whether the subgrantee spent Federal assistance funds provided in accordance with applicable laws and regulations." If a commercial contract 45 CFR 96.31(b)(1) states that the State ". . . should use their own procedures to ensure that the contractor has complied with the laws and regulations affecting the expenditure of Federal funds."

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 1)

Agency approval procedures are those necessary to determine a correct, valid, and proper charge in order to certify the claim voucher. . . . Basic Expenditure Payment Procedures: . . . Determine that the expenditure is reasonable and necessary for the agency and is a proper charge to a specific fund or fund/object/center. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Chapter 5)

STATE OF INDIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

Status of Finding as of October 2005:

The Division of Disability and Rehabilitative Services (DDRS), Bureau of Developmental Disabilities Services (BDDS) is in the process of establishing a system to approve services for each individual. Billing will be based on that approval. This will be similar to the process used for the Individual Community Living Budget (ICLB) for State Funding of residential services. This will allow for the verification of the validity of day services (Title XX) claims at the time of the claims processing.

Beginning in July 2003, we established a process to collect claims information by individual. In order to accomplish the verification of billing against the proper funding source, each provider must submit an electronic submission of a report indicating by individual the services being billed on the claim. This data is then reconciled against the hard copy of the claim.

Currently, a new FSSA systems consolidation project is evaluating all systems of data collection within DDRS. The Bureau of Developmental Disabilities Services has discussed with the current data base consultant the need to develop a web-based document that would require all individual receiving state funded DD services including the Title XX day services to be authorized by the BDDS staff. In this way, the provider agencies will voucher by individual's authorized services. Thus a checks and balance for Title XX claims will be established, similar to the residential accounts.

**FINDING 2002 - FSSA-4, PASS-THROUGH ENTITY RESPONSIBILITIES
AT DIVISION OF MENTAL HEALTH FOR TITLE XX**

Federal Agency:	Department of Health and Human Services
Federal Programs:	TITLE XX
CFDA Numbers	93.667
Auditee Contact Person:	Cathy Boggs
Title of Contact Person:	Director, DMHA/FSSA
Phone Number:	317-232-7860
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Reportable Condition, Material Weakness

Finding:

The Division of Mental Health (DMH) at FSSA contracts with and provides funding to various providers for community mental health services. Part of the funding provided comes from Title XX.

According to OMB Circular A-133 Subpart D Section 400(d)(4), the pass-through entity is responsible to: "Ensure that subrecipients expending \$300,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year." Also, Section 400(d)(5) requires the pass-through entity to: "Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action."

DMH did not have a system in place to determine that subrecipient A-133 requirements had been met and had not reviewed any of the subrecipient A-133 audit reports received since November 2000. A new process was implemented in April 2002 whereby all A-133s reports were sent to FSSA's Audit Services for a fiscal review. However, neither DMH nor Audit Services had a system in place to determine that all required A-133 reports had been submitted. Thus, no determination has been made to confirm that subrecipients had an A-133 audit performed if required.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

We recommended that FSSA implement a system that verifies the submission of required OMB Circular A-133 reports.

Status of Finding as of October 2005:

DMHA has continued to work with the State Board of Accounts and FSSA Audit to update the recipient audit log to track the receipt and review of sub recipients' A133 audit reports. DMHA is currently to keeping the audit log, following up on delinquent audits, and forwarding the audits to Audit Services within two weeks of receipt. DMHA is committed to maintaining the audit log and ensuring that audits are forwarded to Audit Services as outlined in the procedure that has been developed in collaboration with FSSA Audit and the State Board of Accounts.

Audit Services prioritizes each independent audit as it is received and thoroughly reviews all audits with audit findings or other high risk indicators. Feedback is sent to the providers on all reviewed audits. Follow-up with the provider and/or audit firm is done when questions arise or additional information is required. Program areas are also notified when concerns arise from the desk reviews. A sampling of the low risk audits is also done and appropriate feedback and follow-up is done.

FINDING 2003 - FSSA-1, FOSTER CARE PAYMENTS

Federal Agency:	Department of Health and Human Services
Federal Programs:	Foster Care Program
CFDA Numbers	93.658
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director, Financial Management
Phone Number:	317-232-7088
Compliance Requirement:	Activities Allowed or Unallowed, Reporting
Internal Control:	Reportable Condition

Finding:

Eligibility of children for the Foster Care, Foster Care Waiver, and Adoption Assistance programs are determined at FSSA's local offices of Family and Children. The claims for reimbursement from these programs are also prepared by these local offices. These claims are sent to FSSA's central office of Financial Management for processing. Financial Management makes payments from the appropriate program funds as indicated on the claims. There are separate federal funds for the Adoption Assistance Program and the Foster Care Program. Foster Care and Foster Care Waiver are both paid from the same federal program, but the amount that may be paid for Foster Care Waiver children is limited and must be identified for reporting and analysis purposes.

We tested ten payments to verify allowability and found two exceptions. One case had been identified on a claim as eligible for Foster Care and should have been identified as a Foster Care Waiver case. This resulted in the under reporting of Waiver payments. Another case had been identified on a claim as eligible for Foster Care and should have been Adoption Assistance. This resulted in \$511.50 being paid from Foster Care funding instead of Adoption Assistance funding. Through further research we found that both cases had been properly classified on claims the following month. However, no corrections for the prior improper claims had been made. Through inquiry we found that there is no formal mechanism in place for the local offices to inform the central office of incorrect claims for these programs.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

45 CFR 74.20 states that: ". . . (b) Recipients' financial management systems shall provide for the following: . . . (2) Records that identify adequately the source and application of funds for HHS-Sponsored activities. . . . (3) Effective control over and accountability for all funds, property and other assets."

We recommended that FSSA implement a process for the local offices to apprise financial management of incorrect claims.

Status of Finding as of October 2005:

FSSA Finance has completed an electronic claiming system for reimbursements to counties under Title IV-E, Assisted Guardianship and Title IV-A Emergency Assistance. In September 2005, Finance implemented ICWIS Schedule of payments, including ICWIS Child IDs with county claims from 86 of the 92 counties. This will allow matching of claims against IV-E Eligibility in ICWIS. This will enable a monthly run of a report for each of the participating 86 counties showing each eligible child and their claims and if they are in fact eligible. It will also show which children have been claimed and have been subsequently adjusted.

FINDING 2003 -FSSA-3. ALLOWABLE COSTS/COST PRINCIPLES

Federal Agency:	Department of Health and Human Services
Federal Programs:	Foster Care
CFDA Numbers:	93.658
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director, Financial Management
Phone Number:	317-232-7088
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

Finding:

During our audit of the FSSA Cost Allocation Plan (CAP) for the Division of Family and Children (DFC), we found that FSSA lacks adequate procedures for monitoring contract work. FSSA contracts with an independent contractor to develop and maintain their DFC CAP including compilations of various sampling and allocation measurements to support the allocation of program costs. Monthly, the contractor generates allocation reports which FSSA uses to charge indirect costs to their federal programs.

In April 2003, FSSA implemented a new email Random Moment Survey (RMS) process. The contractor selects the sample of employees to be surveyed, compiles the responses, and uses the results to determine the percentage of time employees worked on federal grants. Through our testing, we found that some caseworkers were unable to place a toll free phone call from their desk to answer the survey after their email link expired and, therefore, must disrupt their work to use their supervisor's phone when it is available. Neither FSSA nor the contractor were aware of this potential problem. Through further inquiry, we found that neither FSSA nor the contractor had made inquiries at the DFC offices for potential implementation issues.

As a result of our testing, a phone access survey was conducted. Results revealed that limited phone access affected 27 of 130 offices; 26 of 27 were among the 39 Marion County offices. Although phone surveys are not done frequently, sufficient data has not been captured to determine the impact on the RMS sample results.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

In addition, FSSA has not maintained adequate oversight of the monthly allocation reports generated by the contractor. Monthly cost reports prepared by FSSA Financial Management are given to the contractor for their compilation of allocated costs. The contractor allocation reports are used by Financial Management to charge indirect costs via journal voucher. Financial Management does not verify that the costs on their cost reports submitted to the contractor agree with the costs in the contractor allocation reports. This lack of monitoring could lead to errors made by the contractor that were not detected by FSSA Financial Management. Financial Management also does not review the contractor's allocation reports once necessary quarterly or bi-yearly updates are made due to revised sampling and allocation measurements.

45CFR302.10(c) states that: "The IV-D agency will assure that the plan is continuously in operation in all appropriate offices or agencies through . . . Regular planned examination and evaluation of operations in local offices by regular assigned State staff, including regular visits by such staff; and through reports, controls, or other necessary methods."

Plan requirements in 45CFR95.505(i), state: "That the information contained in the proposed cost allocation plan was prepared in conformance with Office and Management and Budget Circular A-87."

Status of Finding as of October 2005:

In July 2004, Sequoia Consulting replaced Maximus as the contractor to develop and maintain the FSSA and DFC Cost Allocation Plans and Random Moment Samples.

In May 2005, Sequoia completed an Administrative Cost Flow document detailing the process and input and outputs generated for each allocation covered in one of the CAPs. Each affected accountant has a copy of the sections covering their area of allocation so they may monitor the data provided by the contractor.

**FINDING 2003 - FSSA-6, CHILD CARE AND DEVELOPMENT
FUND (CCDF) – MONITORING OF REGISTERED MINISTRIES**

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Michelle A. Thomas
Title of Contact Person:	Child Care Administrator
Phone Number:	317-234-3313
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

Finding:

Of the 4 major classes of child care providers that participate in Indiana's CCDF voucher program (licensed centers, licensed homes, registered ministries, and legally licensed-exempt in-home providers), only registered ministries are not subject to minimum staff/child ratios or total capacity limitations. In addition, the Bureau of Child Development (BCD) does not routinely verify attendance records against

STATE OF INDIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

CCDF enrollment records during its periodic inspections of registered ministries. The absence of staff/child or total capacity restrictions, combined with the absence of cross-verification of records, creates unique opportunities for manipulation of enrollment records at registered ministries that participate in the CCDF voucher program. During the audit period, an investigation of a registered ministry by FSSA's Bureau of Investigation resulted in 26 felony charges related to the manipulation of enrollment records.

45 CFR 98.11 states: "In retaining overall responsibility for the administration of the program, the Lead Agency shall . . . (5) Oversee the expenditures of funds by subgrantees and contractors and (6) Monitor programs and services."

We recommended FSSA monitor registered ministries for allowable costs.

Status of Finding as of October 2005:

Per our response of August 1, 2004, the Bureau of Child Development has taken the following actions in regard to monitoring of Registered Ministries.

- Amended the CCDF Provider Statement to include the following language:
"I may not possess or use a Hoosier Works for Child Card card to authorize electronic attendance transactions for any CCDF children. This policy also applies to my child care staff, as well as any members of my household/facility in which child care is provided. I understand I may not require coerce parents to violate this policy."
- A Provider Manual has been completed and disseminated that includes the above statement and an inclusive list of provider responsibilities, rights, and consequences.
- Complaints are taken, investigated, and letters sent warning providers of consequences when complaints are validated.
- Ministry inspectors routinely check the number of children present and question about CCDF usage although State law still does not require ministries to meet a child/staff ratio. Questionable situations are referred to the Quality Assurance unit and/or the Fraud Investigator depending on circumstances viewed by the inspector.
- The Quality Assurance unit began in August 2005 a sample monitoring of Registered Ministries to analyze the impact of our actions to date and to determine if additional steps are warranted. Process is as indicated below:

In addition to implementing electronic swipe cards as noted in the 10-04 response, the Quality Assurance Unit is implementing procedures to perform site visits randomly selected Registered Child Care Ministries. A sample was performed in August 2004 to get baseline error rate for determination of statistically valid statewide sample. A total of 142 randomly selected Registered Child Care Ministries will receive an unannounced site visit by a Quality Assurance Consultant.

Attendance of voucher children on the day of visit will be verified and cross matched with actual payment the Registered Child Care Ministry received. All site visits will be completed by October 31, 2005, and error rate for each will be documented and referred for appropriate follow up by program staff and/or referred to the Bureau of Investigation. An overall summary of findings and recommendations will be produced and escalated to the Child Care Manager for consideration.

STATE OF INDIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

FINDING 2003 - FSSA-8, CHILD CARE DEVELOPMENT FUND (CCDF) – FIRE MARSHALL

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Michelle A. Thomas
Title of Contact Person:	Child Care Administrator
Phone Number:	317-234-3313
Compliance Requirement:	Allowable Costs/Cost Principles

Finding:

Lead agencies receiving CCDF funding must certify: ". . . that procedures are in effect to ensure that child care providers of services for which assistance is provided . . . comply with applicable . . . safety requirements . . ." (45CFR98.41(d)). FSSA is the lead agency for the State of Indiana. Section 6.6 of FSSA's state plan for CCDF has as part of its assurance for building and physical premises safety, inspections by the State Fire Marshall. Specifically, the inspection of licensed centers and registered ministries are required by Indiana Code.

The Office of State Marshall has historically experienced difficulty in performing daycare inspections in a timely manner. To address this issue, FSSA's Bureau of Child Development (BCD) used CCDF quality funds to contract with the Fire Marshall to hire additional staff dedicated to daycare inspections, beginning in 2001. A total of \$1.4 million in CCDF quality funds was awarded for the four-year period from FFY01-FFY04. Despite hiring six additional staff members with CCDF quality funds, the Fire Marshall still failed to perform timely inspections of daycare facilities during the audit period.

Because of the backlog in fire inspections, the Health Section at BCD began issuing certificates to new ministries whether an inspection had been performed or not. It also began renewing certificates for existing ministries who had not received a timely inspection. The Licensing Section at BCD continued to withhold licenses for new centers until a fire inspection had been performed, but permitted existing facilities to operate without a timely inspection.

We recommended that FSSA determine that safety procedures are in effect before certification or disclose in the state plan that such certification is not possible due to lack of timely inspections.

Status of Finding as of October 2005:

In addition to earlier steps taken to clarify the responsibilities of the State Fire Marshal in the inter-agency MOU the following steps have been initiated.

- An electronic transfer of data has been completed to encourage the exchange of information between agencies. These updated reports are sent weekly. This allows for timely interactions between Licensing staff and staff from the State Fire Marshal's office.
- Licenses for centers and registrations for ministries are being held when a site has not met requirements after two visits. An informal meeting between the Fire Marshall, provider, and regional manager is required to resolve issues. All parties identify next steps and timelines.
- As a result of this finding, internal policies do not allow licenses or ministries, existing or initial openings to proceed without appropriate inspections.

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(Continued)

- The State Fire Marshall has taken an increased role in participating in CCDF activities and representatives regularly attend quarterly regional meetings to understand the impact of their activities with provider groups.

FINDING 2003 - FSSA-9, CHILD CARE AND DEVELOPMENT FUND
(CCDF) – LOCAL OFFICES OF FAMILY AND CHILDREN

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Michelle A. Thomas
Title of Contact Person:	Child Care Administrator
Phone Number:	317-234-3313
Compliance Requirement:	Eligibility
Internal Control:	Reportable Condition

Finding:

During the audit period, to determine child care eligibility for a Temporary Aid to Needy Families (TANF) recipient, the voucher or intake agent examined a referral provided by the local Office of Family and Children (OFC).

We found that the Division of Family and Children (DFC) does not impose statewide standards on the TANF referral process other than to require in the CCDF Policies and Procedures Manual that the referral (1) be written and (2) include the identification number assigned to the applicant by the Indiana Client Eligibility System (ICES).

During the audit period, voucher agents were required by contract to execute a Memorandum of Understanding (MOU) with the County Team, which includes representative(s) of the local OFC, to outline the roles and responsibilities of members of the County Team. Intake agents were only required to appoint a liaison with the local OFC to facilitate communication.

We inspected the MOUs and procedures governing TANF referrals for a sample of voucher and intake agents. We found that procedures were inconsistently documented from county to county. In addition, several counties did not have a procedure in place to ensure that the local OFC communicated changes in TANF status to the voucher/intake agent after the initial referral. CCDF vouchers have a potential life of six months, and a change in TANF status should trigger an eligibility redetermination. In addition, we found that the Bureau of Child Development (BCD) does not monitor whether TANF referrals are updated in a timely manner.

45 CFR 98.11(a)(1) states: "The Lead Agency shall retain overall responsibility for the administration of the program."

45 CFR 98.20(a) states: "In order to be eligible for services under §98.50, a child shall: (2) Reside with a family whose income does not exceed 85 percent of the State's median income for a family of the same size."

45 CFR 98.50(e) states: "Not less than 70 percent of the Mandatory and Matching Funds shall be used to meet the child care needs of families who: (1) Are receiving assistance under a State program under Part A of title IV of the Social Security Act, (2) Are attempting through work activities to transition off such assistance program and (3) Are at risk of becoming dependent on such assistance program."

STATE OF INDIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

We recommended that DFC implement consistent standards and controls to ensure that local OFCs supply adequate and timely information to CCDF intake agents to verify and monitor the child care eligibility of TANF recipients.

Status of Finding as of October 2005:

- A statewide TANF/CCDF referral form has been developed in conjunction with BCD and OFC/TANF policy staff;
- Once the form has been adopted and approved as an official state form. It will be implemented statewide.

FINDING 2003 - FSSA-11, CHILD CARE AND DEVELOPMENT
FUND (CCDF) – OFFICE OF GENERAL COUNSEL

Federal Agency:	U.S. Department of Health and Human Services
Federal Program:	Child Care Cluster
CFDA Number:	93.575, 93.596
Auditee Contact Person:	Michelle A. Thomas
Title of Contact Person:	Child Care Administrator
Phone Number:	317-234-3313
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

Finding:

During the audit period, we found that control weaknesses in the communications process between the Office of General Counsel and program staff at the Bureau of Child Development (BCD) resulted in legal advice being issued that was not based on all available facts and/or not reviewed by senior program management prior to implementation. We found that some legal advice could no longer be located. In some cases advice had been issued by e-mail without taking steps to preserve a hard copy or archived electronic copy in easily retrievable form. In addition, we found that the communications process at times resulted in divergent perceptions among program and legal staff regarding the content of legal advice provided.

We identified the following instances during the audit period in which the Office of the General Counsel provided legal advice to the BCD under circumstances that indicate control weaknesses in the communications process:

- After losing its appeal of a license revocation issued in response to a child's death while in the provider's care, a provider continued to provide daycare to CCDF clients for approximately three weeks after the provider's license revocation was final. BCD sought advice from the Office of General Counsel when the provider threatened to sue for payment for services provided. The attorney who advised BCD was not aware that appeals procedures at the Licensing Section also affected the provider's status under Indiana Code 12-17.2-3.5 (the "minimum standards" statute), which sets eligibility standards for the CCDF voucher program. Specifically, the Licensing Section grants an automatic extension of the annual minimum standards inspection pending the outcome of an appeal. If the decision to revoke the license is upheld, the minimum standards inspection lapses at the same time the license revocation is final, unless the provider has made separate arrangements to qualify as a legally-licensed exempt in-home (LLEP) provider. Minimum

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

standards inspections for LLEPs were performed during the audit period by the local Community and Childcare Resource & Referral (CCR&R) agent. Because the attorney did not have all available facts, based on the attorney's advice BCD issued a manual override of electronic payment controls to authorize payment.

- Based on the advice provided by the Office of General Counsel, during the audit period BCD program staff instructed local Office of Family and Children (OFC) directors that they could not share information regarding substantiated cases of abuse with voucher/intake agents unless the information was included in the central registry defined in Indiana Code 31-33-17. This registry contains a strictly defined subset of substantiated abuse cases, such as cases for which formal charges have been brought. Prior to the audit period, the model provider agreement recommended by BCD for use by voucher agents included (1) a waiver of the signing provider's confidentiality rights in cases of substantiated cases of abuse and (2) an acknowledgement that the provider's rights to participate in the CCDF voucher program may be terminated at the voucher agent's discretion under various circumstances, including a "pending abuse/neglect charge." This change in policy was implemented without the knowledge of senior management at the Division of Family and Children (DFC).
- Based on due process concerns raised by the Office of General Counsel, during the audit period the Licensing Section would not close down a licensed facility after revoking its license until after the appeals process was exhausted or abandoned by the provider. For the same reason, BCD would not deactivate any of the provider's CCDF vouchers during the same time frame unless the provider had committed a minimum standards violation under Indiana Code 12-17.2-3.5. The exception for minimum standards violations was based on additional legal research, completed by the Office of General Counsel, regarding how due process issues are affected by the minimum standards statute. However, neither the original nor additional research could be located when we requested it from the Office of General Counsel.
- During internal correspondence regarding BCD's decision to terminate a provider from the CCDF voucher program, legal staff from the Office of General Counsel raised multiple concerns regarding the consistency of BCD's criteria and procedures for following through allegations of fraud. The concerns of legal staff were interpreted by program staff as a directive to stand down from the decision to terminate the provider from the CCDF voucher program. Instead, a repayment agreement was set up for approximately \$18,000 in services that had been billed but not provided. In the correspondence, legal staff cited as precedent another situation in which a repayment agreement "only" had been negotiated with a voucher agent, without reference to additional consequences imposed by BCD (including a change in executive management, internal controls, and organizational structure) on this voucher agent. The correspondence was documented by e-mail only. No follow-up communication addressed the ongoing issue of establishing reasonable criteria that would resolve legal staff's concerns and preserve program staff's discretion to implement additional penalties for fraud.

The Office of General Counsel performs a critical role in establishing the control environment for management decisions at FSSA. Any control weaknesses in the communications process which potentially affect the content and implementation of legal advice provided by the Office of General Counsel weaken this environment.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

45 CFR 98.11(a)(1) states: "The Lead Agency shall retain overall responsibility for the administration of the program." 45 CFR 98.11(b) states: "In retaining overall responsibility for the administration of the program, the Lead Agency shall . . . (5) Oversee the expenditures of funds by subgrantees and contractors and (6) Monitor programs and services."

We recommended that FSSA implement sufficient communication and review procedures to ensure that legal advice is (1) based on a thorough knowledge of the programs affected, (2) formally documented, and (3) implemented with the full knowledge of management. Such procedures should ensure that any ongoing concerns raised by legal staff are resolved in a manner which preserves program staff's discretion to act within appropriately set parameters.

Status of Finding as of October 2005:

The Bureau of Child Development (BCD) routinely seeks advice from the Office of General Counsel (OGC). This communication is a vital piece in the day-to-day business of FSSA. The OGC agrees with the SBOA that recording any such advice is important, particularly in cases where it may be a change in how BCD conducts business, or conversely in cases where BCD may not desire to follow such advice. OGC is obtaining necessary facts before rendering legal opinions to the BCD. When OGC uses electronic mail to convey such messages, these messages are retained. In addition, BCD keeps a file of legal advice given. We believe this should satisfy this finding.

FINDING 2003 - FSSA-16, ONGOING VERIFICATION OF PROVIDER MEDICAL LICENSES

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Julie Ullrich
Title of Contact Person:	Deputy Director, OMPP, FSSA
Phone Number:	317-232-0237
Compliance Requirement:	Special Tests and Provisions - Provider Eligibility
Internal Control:	Reportable Condition

Finding:

FSSA's Medicaid Program contracts with an outside contractor, EDS, for determining provider eligibility. During our audit of FSSA's Medicaid Program, we found that the current status of provider medical licenses was not verified by EDS on a consistent basis. The Indiana Health Professions Bureau (IHPB) maintains a centralized database of health profession licenses. IHPB transmits to EDS on a monthly basis an electronic list of active licenses. EDS used this file to verify that new Medicaid providers applying for enrollment were licensed. However, EDS did not use this file to verify that the licenses of active providers were current. In one instance, we discovered a provider that remained actively enrolled whose license had been revoked more than two years previously. Upon inquiry, we found that EDS performed a limited verification of license revocations using manual procedures. However, these manual procedures were insufficient to assure that providers without a current license would be determined ineligible on a consistent basis. This is a control weakness.

42 CFR 440 Subpart A includes definitions of the various medical services eligible for reimbursement under Medicaid. 42 CFR 440.50 defines physicians' services as "services furnished by a physician . . . by or under the personal supervision of an individual licensed under State law to practice medicine or osteopathy."

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

We recommended that FSSA implement procedures to ensure that providers whose medical licenses are not current do not remain eligible for participation in Medicaid.

Status of Finding as of October 2005:

The standard termination letter process is now in place, as well as actively closing all providers from the original reconciliation report labeled "Matched non-pharmacy providers." Due to the large volume, and the need to manually review all appropriate provider enrollment linkages, the EDS provider enrollment unit has added this activity to their other daily workload. A matched report identifies providers who are active Medicaid providers that may have a change to their license status. For these providers, their current Health Professions license status is distinguished to compare to the Medicaid file. The full data exchange file with the Health Professions Bureau will be an on-going mechanism. In addition, the provider enrollment unit will strengthen procedures to review the matched pharmacy providers, and matched providers with additional licenses, on a consistent basis. In addition, OMPP will review ways of cleaning up the large unmatched reports. This finding is unresolved at the time of this audit report.

FINDING 2004 - FSSA-1, SOCIAL SECURITY – DISABILITY INSURANCE

Federal Agency:	Social Security Administration (SSA)
Federal Program:	Social Security–Disability Insurance
CFDA Number:	96.001
Auditee Contact:	Pat Carew-Ceesay
Title of Contact Person:	Deputy Director, Disability Determination Bureau (DDB)
Phone Number:	317-396-2007
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition

Finding:

The Time Report of Personnel Services for Disability Determination Services (Form SSA – 4514) is required to be filed quarterly by FSSA with SSA for the Social Security – Disability Insurance program. During our audit of this report, we found that the computer program utilized to compile the employee hours was not counting all the lines in the report. It was determined that if there were blanks in cells instead of zeros the program would omit the whole line for counting purposes. This has resulted in the under reporting of hours since 2003 when this computer program was first utilized. An analysis of the quarterly reports submitted during the audit period indicated the total employee hours and the Full Time Equivalent (FTE) employee calculation were 3% to 7% less than the correct amounts. The Social Security Administration had communicated to the DDB that the hours reported appeared low. This report has no financial impact on this program; it is an analysis tool to determine the (FTE) employees working on the program during the quarter.

20 CFR 437.40 (a) states: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program function or activity."

We recommended that FSSA implement procedures to verify that amounts reported on the Form SSA – 4514 properly reconcile to the source records.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

Status of Finding as of October 2005

FSSA Finance has implemented procedures to verify that amounts reported on form SSA-4514 properly reconcile to the source records. Finance will export the source records to a spreadsheet and create totals to verify the computer generated SSA-4514 report is correct.

FSSA Finance had revised all reports that were generated incorrectly and submitted them to the Disability Determination Bureau. Reports will also be submitted to SSA. We believe this audit finding has been addressed and satisfied.

FINDING 2004 - FSSA-2, VOCATIONAL REHABILITATION
SERVICES FUND (VR) – IRIS SYSTEM

Federal Agency:	Department of Education
Federal Program:	Vocational Rehabilitation Services
CFDA Number:	84.126
Auditee Contact Person:	Mike Hedden
Title of Contact Person:	Deputy Director, Vocational Rehabilitation Service
Phone Number:	317-232-1523
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

Finding:

During our audit of FSSA, we found anomalies of counselor activities. Through inquiry we then found that FSSA had an ongoing investigation of a Vocational Rehabilitation Services (VR) counselor and vendor that had approved inappropriate expenditures. Procedures were inadequate to identify these inappropriate disbursements in a timely manner.

Currently VR has the Indiana Rehabilitation Information System (IRIS) which maintains eligibility and fiscal information for VR clients. Several different reports are generated from this system for management's use. However, upon inquiry we found that these reports were not being utilized by management as a risk assessment of counselor activity that would identify the aforementioned inappropriate disbursements. One method to identify inappropriate disbursements in a timely manner would be to develop reports that would identify the following:

- (1) Analysis of counselors and vendors to determine that clients are directed to an appropriate vendor for their services and that the counselors are using an array of vendors;
- (2) Analysis of the cost per case or average cost per case to isolate any counselor activity falling outside selected parameters.

Analysis should be done to determine that inappropriate activities are isolated and corrective actions are implemented.

The lack of monitoring and risk assessment are significant control weaknesses.

34 CFR 80.40(a) states: "Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity."

STATE OF INDIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

34 CFR 361.12 states: "The State plan must assure that the State agency, and the designated State unit if applicable, employs methods of administration found necessary by the Secretary for the proper and efficient administration of the plan and for carrying out all functions for which the State is responsible under the plan and this part. These methods must include procedures to ensure accurate data collection and financial accountability."

We recommended that FSSA implement procedures to adequately monitor program activity and assess risk.

Status of Finding as of October 2005:

VR initially became aware of fiscal anomalies referenced in this audit in June 2004. The FSSA Office of General Counsel was immediately contacted to begin an internal investigation of the VR counselor in question. The anomalies were discovered via a combined routine review by the VR Region Manager, the Indiana Rehabilitation Information System (IRIS) and the Claims Management Unit of the Division of Budget and Finance. The investigation of this counselor is complete and the final investigation report is pending. The counselor is still employed by VR at this time, in suspended status. Continued fiscal monitoring has revealed no additional significant discrepancies on the part of other VR Counselors statewide.

Effective January 1, 2005, VR Area Supervisor responsibilities were expanded to provide closer monitoring and approval of VR services and expenditures through the Individualized Plans for Employment (IPEs). The reviews/approvals have not uncovered anomalies similar to the inappropriate disbursements of the counselor under investigation. However, they have proven useful in identifying inappropriate services (i.e., services not absolutely necessary for the employment outcome or not directly related to the client's disability) and also have proven useful in identifying counselor training deficits/mentoring needs. Updated Area Supervisor training on the IPE review process is scheduled for December of 2005. IRIS reports (Report 290 and 294) specifically identify potentially inappropriate financial relationships between Counselors and Vendors. These reports are monitored by Area Supervisors, Region Managers and VR Administration regularly. Counselors and Supervisors have received training regarding informed choice for VR customers, as well as price quote requirements for purchases exceeding \$600. Report 290 has proven to be the more useful of the two reports and is run on a regular basis statewide. Report 294 usage has proven sporadic. Report 294 will be reviewed to determine if changes are needed to make it more useful or if it should be discontinued.

VR has begun work on procurement strategies that will limit the number of approved providers for specific services (such as hearing aids, vehicle modifications, home modifications), by contracting with a small number of approved providers at set rates. Training will be provided to Supervisors on the impact to informed choice and price quote/bid comparisons for these services. Potentially, the first implementation of this strategy (for hearing aid and related services) will be facilitated via the release of an RFP under the umbrella of the One Indiana FSSA procurement project in February 2006. The continued submission of RFPs and establishment of a limited number of contracts for specific services (such as vehicle modifications, home modifications, psychological assessments, etc.) will be an on-going process that will span several years. In addition to the rate setting and contracts, VR will be developing adopting standards or credentials for certain professional services, especially in the area of Vehicle Modifications, Home Modifications, and other assistive technology related services. There are currently no credential requirements for any person or organization practicing these skilled trades.

Supervisor responsibilities have been expanded to identify outliers exceeding the average cost per case. Multiple reports have been implemented, IRIS fiscal edit limits are in place, and a second Supervisor level signature is required on all claim vouchers. Edits exist in the Claims Management System requiring Deputy VR Director approval of claims exceeding limits.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

VR plans to further narrow the outlier limits for cost per case and duration of case. IRIS fiscal edit limits are to be reduced in several categories. These changes will be in effect by mid November 2005

Continued analysis has shown no significant inappropriate activity. The review and monitoring processes are ongoing, along with random case review. The quality assurance program is still under review, and its case monitoring responsibilities have not yet been adjusted.

VR recommends that the corrective action plan should remain open, pending receipt of the counselor investigation final report. If further recommendations are forthcoming from the investigators, they will be reviewed for incorporation into the corrective action plan. It is anticipated that the report should be provided within the next 6 months.

Finally, VR plans to solicit a professional analysis of existing fraud and abuse controls to determine if there are other tools we might employ to improve our accountability. VR will routinely invite FSSA Internal Audit to participate in or review the products of internal work groups dealing with initiatives to improve accountability.

FINDING 2004 - FSSA-3, DIVISION OF FAMILY AND CHILDREN -
BUREAU OF PROGRAM INTEGRITY

Federal Agency:	Department Health and Human Services
Federal Program:	Medicaid
CFDA Number:	93.778
Auditee Contact Person:	Karen Frazier
Title of Contact Person:	Director, Quality Control
Phone Number:	317-232-4498
Compliance Requirement:	Monitoring
Internal Control:	Reportable Condition

Finding:

The Bureau of Program Integrity (BPI) of FSSA is equivalent to an internal audit function that conducts annual reviews of the client population of Medicaid. This unit produces reports to quantify the case and file error rates for this program. These reports are forwarded to the Federal oversight agency, the Center for Medicaid and Medicare Services (CMS).

At present, the BPI is reporting to the Deputy Director of the Division of Family and Children (DFC), the program management that it is also auditing. Established internal control practices provide that internal audit functions should not report to management with direct lines of authority but to the highest level of management to ensure independence. Furthermore, for proper monitoring of grant supported activities to occur any internal audit function must report to top management of the entity. BPI's current organizational reporting structure to DFC does not ensure independence and proper monitoring. If BPI is to perform internal audit functions, even on a limited basis, a greater degree of freedom, independence, and objectivity would be achieved if this section reported directly to the agency head or to a senior manager who does not also have fiscal or program responsibilities. This is a control weakness.

45 CFR 92.40 (a) Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

We recommended that the BPI report directly to upper management at FSSA.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

Status of Finding as of October 2005:

DFR has made changes regarding the organizational makeup of the Division. As a part of this change, Program Integrity (PI) now reports directly to the Assistant Director of DFR. The primary role of this position is technology and modernization, and is less policy administration. In addition, the PI Manager meets weekly with the DFR Director to brief the director on PI data reports, projects, concerns, and requests. This creates an effective two-way communication link between PI and the Division Director.

Further changes in organization will be reviewed as the eligibility process is expected to be outsourced and the Division will transition to more monitoring responsibilities of the contractor. At the time of this audit, this finding remains unresolved.

FINDING 2004 - FSSA-4, FAMILY AND SOCIAL SERVICES ADVISORY COMMITTEE

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of Health Policy, OMPP
Phone Number:	317-233-4448
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Reportable Condition

Finding:

42 CFR 431.10 (b) states: "A State Plan must . . . (2) Include a certification by the State Attorney General, citing the legal authority for the single State agency to—(i) administer or supervise the administration of the plan; and (ii) make rules and regulations that it follows in administering the plan . . ."

Indiana Code 12-8-6-1 states: "The office of Medicaid policy and planning is established." Indiana Code 12-8-6-3 states: "The office is designated as the single state agency for administration of the state Medicaid program under IC 12-15." Attachment 1.1-A of the Indiana State Plan includes a certification by the State Attorney General regarding the legal authority of OMPP as the single State agency to administer the plan.

However, the certification is silent regarding OMPP's authority to make rules and regulations that it follows in administering the plan. Indiana Code 12-8-6-5 states: "The secretary [of the Family and Social Services Administration (FSSA)] may adopt rules under IC 4-22-2 to implement . . . the state Medicaid program." In past years, the Center for Medicare and Medicaid Services (CMS) has made inquiries regarding the apparent conflict between OMPP's and FSSA's rulemaking authority. In practice, FSSA's Office of General Counsel has resolved this conflict by submitting all Medicaid-related rules to both OMPP and the Secretary's office for approval.

Indiana Code 12-8-1-9 states: ". . . any rules adopted by the secretary . . . must be approved by the family and social services committee established by IC 12-8-3-2 before submission to the attorney general..." Indiana Code 12-8-3-3 states: "The committee consists of fifteen (15) voting members appointed by the governor . . . The voting members may not be employees of the executive branch or legislative branch of the state. Not more than five (5) of the members may be health care providers . . ." These members must include at least one licensed physician, one representative of a disproportionate share (DSH) hospital, and "One (1) individual who serves as a provider on the Medicaid advisory committee (IC 12-15-33-2) who shall represent the interests of health care providers having representation on the Medicaid advisory committee."

STATE OF INDIANA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

Prior to 1995, the Family and Social Services Advisory Committee (Advisory Committee) consisted of a predecessor entity, the Family and Social Services Advisory Commission. The commission primarily consisted of executive branch members and did not have authority to approve rules.

We were informed of the rule-making authority of the Advisory Committee during an exit interview with senior FSSA management staff during December 2004. Upon further inquiry, we discovered that neither FSSA's Audit Division nor CMS were aware of the existence of the Advisory Committee and its rule-approval authority. The organization charts for OMPP and FSSA (Attachment 1.2-A of the Indiana State Plan) do not disclose the existence of the Family and Social Services Advisory Committee.

We also discovered that members of the Advisory Committee are not required to excuse themselves from voting unless they have a personal financial interest in the outcome of the vote. According to the Office of General Counsel, unless their personal compensation is directly affected by the proposed rule, potential conflicts of interest for their employer do not disqualify the member from voting.

We reviewed the minutes of the Advisory Committee during the audit period and discovered that votes were frequently taken if the minimum quorum of eight members were present. At times up to four representatives of the health care industry contributed to the minimum quorum, including an employee of a managed health care organization, a doctor, a member of Health and Hospital Corporation (a Marion County DSH provider), an employee of a mental health care center, and a former director of OMPP who now works for a health-care research and consulting firm periodically retained by FSSA.

42 CFR 431.10(e) states: "In order for an agency to qualify as the Medicaid agency—(1) The agency must not delegate, to other than its own officials, authority to . . . (ii) Issue policies, rules and regulations on program matters. (2) The authority of the agency must not be impaired if any of its rules, regulations, or decisions are subject to review, clearance, or similar action by other offices or agencies of the State."

The submission of Medicaid-related rules to an Advisory Committee which contains a significant voting bloc of health-care industry representatives represents a potential impairment of OMPP's rule-making authority. The potential impairment cannot be evaluated as to the extent that the existence of the Advisory Committee may effect what rules are proposed and submitted. The additional delays imposed on the rulemaking process through the introduction of several layers of approval, including the Secretary's office, also represents a potential impairment.

We recommended that OMPP communicate with CMS and, if necessary, members of the Indiana State Legislature regarding the potential impact of the existence of the Advisory Committee on its ability to serve as the single State agency.

Status of Finding as of October 2005:

The State Plan will be modified to include citation to Indiana Code 12-8-6 and Indiana Code 12-15 as the appropriate legal authority for statewide administration of the Plan by OMPP. This portion of the State Plan also contains attachments that include organizational charts for the OMPP and FSSA. Due to a re-organization of the agency, the State Plan Amendment will not be submitted until the organizational charts are finalized. The Office of Medicaid Policy and Planning continues to maintain that no impairment exists to its ability to administer the Medicaid plan due to review of rules by the FSSA Advisory Committee. Due to the difference in opinions on this finding, OMPP will pursue a written opinion from CMS to help resolve this finding.

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
(Continued)

FINDING 2004 - FSSA-5, SUPERVISION OF LOCAL OFFICES OF FAMILY AND CHILDREN (OFCs)

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Ann Alley, Julie Ullrich
Title of Contact Person:	Director of SCHIP, FSSA and Deputy Director, OMPP, FSSA
Phone Number:	317-232-4390, 317-232-0237
Compliance Requirement:	Activities Allowed or Unallowed, Eligibility
Internal Control:	Reportable Condition

Finding:

As noted in Attachment 2.2-A of the Indiana State Plan, the agency that determines eligibility for coverage is "Each County Welfare Department under the supervision of the Family and Social Services Administration" (FSSA). In 1986, the County Welfare Departments were transformed into the local Offices of Family and Children (OFCs). FSSA's Division of Family and Children (DFC) has oversight responsibility for the local OFCs.

We reviewed monitoring and reporting mechanisms between DFC's central office and the local OFCs during the audit period. We discovered that the monitoring controls for central office oversight of local OFCs mainly concerned the Food Stamp program, and applicability to the Medicaid program was limited:

- Second-Party Review (SPR). Local supervisors perform an SPR or desk review on all cases authorized by caseworkers who are on probation or who have been employed less than six months. In prior years, SPRs were also performed for a sample of all experienced caseworkers. However, as of 2003, targeted SPRs were implemented to review earned-income determinations for the Food Stamp program only.
- Management Evaluation Reviews (MERs). As part of the MER, a random sample of Food Stamp cases is selected for desk review. Since Medicaid cases are frequently handled by specialized staff, and program requirements significantly differ, MERs are of limited usefulness in monitoring Medicaid-related duties.
- Quality Control (QC) Reviews. During the audit period, DFC's Bureau of Family Resources (BFR) completed a Medicaid Eligibility Quality Control (MEQC) pilot project, as mandated by CMS. The scope of the MEQC project was limited to a highly technical area of nursing home admissions involving potential estate-shielding tactics. Although error rates identified were high, broad-based conclusions cannot be necessarily projected to the program as a whole.
- Audit Division Reports. FSSA's Audit Division performed on-site audits of local OFCs throughout 2002-2004. We reviewed the scope of these audits and found that, for all but two counties, the audits did not test any federally-funded Medicaid-related functions.

As required by 42 CFR 435.940 through 435.960 and Section 4.32 of the State Plan, eligibility data entered by local caseworkers in the Indiana Client Eligibility System (ICES) is periodically verified against independent information, including (but not limited to) information from the Social Services Administration (SSA), Internal Revenue Service (IRS) and Indiana's Department of Workforce Development

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(DWD). If a discrepancy is found, a data alert is generated by ICES to the caseworker. If the caseworker does not enter a code indicating what type of action was taken and the date action was taken, an alert is generated by ICES to the supervisor. Data will not be automatically overwritten in ICES as the result of a data exchange except for Social Security (SS) benefits or Supplemental Security Income (SSI) verified by SSA.

We were unable to identify any reporting mechanism by which DFC monitored the disposition of data alerts by local OFCs. We requested a custom query from the ICES data warehouse for alerts received during 2003 and 2004 that (1) remained uncompleted despite (2) having generated a supervisory alert. We verified that over 13,000 such alerts remained on the system, including over 2,000 new hire matches against Indiana's child support system and over 200 prison inmate matches against SSA.

More than 7,000 alerts belonged to St. Joseph County, including multiple repetitive alerts for the same case file across time periods. St. Joseph County was selected for a MER in 2000 and 2004. We reviewed the 2000 report and found that problems had been noted in this area, and a recommendation for additional training issued. The same problems were noted in 2004, but no recommendation was made.

However, even for counties for which data alert screens are being completed by caseworkers, no effective oversight exists that these screens are being completed on other than a perfunctory basis unless the case file is selected as part of an SPR or QC sample. Medicaid files are not included in the selection process except under limited circumstances.

The risk of inadequate follow-through for data alerts is exacerbated for pregnant women and children under the age of 19 covered under Hoosier Healthwise, a health coverage program jointly funded by Medicaid and the State Children's Health Insurance Program (SCHIP). Applicants to Hoosier Healthwise are subject to simplified verification rules. Under simplified verification, the applicant's statement is accepted as verification of name, citizenship, address, residency, marital status, and date of birth so long as a valid Social Security number is submitted. Income may be verified by a single pay stub or child support receipt so long as the applicant states that monthly income did not fluctuate from the current level in the prior three months.

42 CFR 435.903 states: "The agency must---(a) Have methods to keep itself currently informed of the adherence of local agencies to the State plan provisions and the agency's procedures for determining eligibility; and (b) Take corrective action to ensure their adherence." 42 CFR 435.952 sets forth requirements for the timely review of information received through data matches. 42 CFR 435.952(f) states: "The agency must use appropriate procedures to monitor the timeliness requirements of this section."

We recommended that OMPP coordinate with DFC to implement monitoring procedures to ensure appropriate follow-up on data alerts by the local OFCs.

Status of Finding as of October 2005:

The OMPP and Division of Family and Resources DFR (formally Division of Family and Children, DFC) staff have met to coordinate increased reporting monitoring mechanisms between the divisions. A statewide report which provides a comprehensive review of county productivity has been developed. This report ensures that the State meets the percentage standard for timely action of data alerts. DFR field consultant staff have also been directed to utilize a productivity report to more closely monitor county-specific activity to identify deficiencies that require corrective action. Further, in an effort to increase data sharing and coordination efforts, a shared unit has been developed between OMPP and DFR staff to supply pertinent, and consistent data regarding Medicaid recipients. At the time of this audit, this finding was unresolved.

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FINDING 2004 - FSSA-6, DEATH VERIFICATIONS

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Ann Alley, Julie Ullrich
Title of Contact Person:	Director of SCHIP, FSSA and Deputy Director, OMPP, FSSA
Phone Number:	317-232-4390, 317-233-0237
Compliance Requirement:	Activities Allowed or Unallowed, Eligibility
Internal Control:	Reportable Condition

Finding:

On a daily basis, the Family and Social Services Administration (FSSA) submits the Social Security numbers of new applicants for programs served by the local Offices of Family and Children (OFCs) to the Social Security Administration (SSA) for verification that the number is valid, has been assigned to the corresponding name, and the number/name are not in the SSA death registry. In addition, FSSA verifies data for active household members against the SSA death registry on a quarterly basis for all recipients above 13 years of age.

If SSA records indicate that a recipient has died, an alert is generated to the caseworker. The Indiana Client Eligibility System (ICES) permits caseworkers to authorize file changes once daily. Most changes can be batched prior to authorization, but death information must be authorized in two sequential steps for the recipient to be properly removed from the household and the remaining household members' eligibility to be recalculated.

If a recipient is properly removed, the recipient's case should become inactive and therefore not be included in the next quarter's death verification request. We requested a query of the ICES data to determine if any death matches were returned for the same recipient from one quarter to the next. A query was generated to compare results for the 4th quarter of 2004 to results for the 4th quarter of 2005. We found 133 matches statewide. Of these matches, 38 indicated some kind of benefit had been provided in 2005. Of these matches, 10 indicated a date of death prior to June 2002.

For these 10 matches, we obtained payment data for the audit period. Out of the 10 matches, 6 recipients were identified who received a combined total of more than \$200,000 in services during SFY04. We also tested a match for a date of death from 1957 and discovered that Medicaid payments had been provided through 2001.

These results are not conclusive until additional research is conducted. For example, if services were provided under a stolen identity, the sum of inappropriate payments would potentially span a longer time-frame than SFY04. Even if each instance of discrepant data can be traced to an error rather than the intentional misuse of an identity, the failure to detect and correct the discrepancies in a timely manner indicates control weaknesses over the payment function. In addition, failure to fully complete the two-step authorization required by ICES for death data affects the accuracy of eligibility determinations for remaining household members.

42 CFR 430.0 states: "Title XIX of the Social Security Act, enacted in 1965, authorizes Federal grants to States for medical assistance to low income persons who are age 65 or older, blind, disabled, or members of families with dependent children or qualified pregnant women or children." Medical assistance cannot be provided to a person who is deceased.

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We recommended that research be conducted to determine the cause of discrepant death verification data for repetitive data alerts. In addition, we requested that the ultimate disposition of each instance of discrepant data, whether correction of erroneous data, recoupment or referral to an appropriate investigative or law enforcement authority be documented and reported to us.

We also recommended that adequate oversight be exercised to ensure timely and appropriate resolution of discrepant death data by local OFCs.

Status of Finding as of October 2005:

OMPP and DFR staff have reviewed the identified cases. Appropriate disposition of all cases have been pursued for the death match query. As a result of this review, it has been determined that increased training through system efforts for the proper termination of eligibility for deceased individuals will be pursued. Proper closure is a two day process. An enhancement to the system is currently being completed to alert workers when a deceased individual remains in an open case. This enhancement, as well as a report for this task, is expected to be in by the end of November 2005. At the time of this audit, this finding was unresolved.

FINDING 2004 - FSSA-7, HOME AND COMMUNITY BASED SERVICE WAIVERS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Julie Ullrich
Title of Contact Person:	Deputy Director, OMPP, FSSA
Phone Number:	317-233-0237
Compliance Requirement:	Activities Allowed or Unallowed
Internal Control:	Reportable Condition

Finding:

42 CFR part 441 subpart G permits States to request a waiver of statutory requirements for the purposes of providing home and community based services to enable individuals to avoid institutionalization. The State of Indiana has obtained eight home and community based service (HCBS) waivers to date, the largest of which is the Developmental Disability (DD) waiver (approximately \$330.5M in services in state fiscal year 2004 [SFY04]), the Aged and Disabled (A&D) waiver (\$33.6M) and the Support Services waiver (\$27.5M). Combined activity under all other service waivers equaled \$19.9M in SFY04.

Prior to the formation of the cross-divisional Waiver Unit between the Office of Medicaid Planning and Policy (OMPP) and the Division of Disability, Aging and Rehabilitative Services (DDARS) in early 2004, HCBS waivers were administered by DDARS. Providers applied to DDARS to be certified according to the particular requirements for a given type of service (including case management) under a particular waiver. Waiver participants retained case managers at will to select providers and prepare a plan of care (POC). Each line item on the POC indicated by provider the type of service, the number of units, and the corresponding date range.

Case managers file POCs and related cost comparison budgets (CCBs) with FSSA through a distributed processing system for case management known as INsite. A uniquely-numbered notice of action (NOA) is issued to the case manager and all affected providers upon approval of every POC or POC amendment.

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However, waiver claims are paid by the Medicaid payment contractor, EDS, through its system, IndianaAIM (AIM). During the audit period, except for the DD and A&D waivers, information was not shared between INsite and AIM to allow verification of claims against the corresponding POC.

This absence of information sharing had potentially far-reaching consequences on front-end controls for waiver service payments because of the manner in which providers are enrolled for billing purposes. Each provider is assigned a provider type and a provider specialty. A particular provider type/specialty may be limited to billing only certain Healthcare Common Procedure Coding System (HCPCS) codes, or limited from billing others. However, waiver providers are only granted a provider type of "Waiver" and a specialty code corresponding to the particular waiver being billed. Therefore, HCPCS restrictions can only be applied at the waiver level, rather than by certification type. In the absence of compensating controls, each provider certified for a particular type of service becomes authorized to bill according to the full spectrum of services available under the waiver.

On November 1, 2002, the first prior authorization (PA) table was activated in AIM utilizing INsite data for the DD waiver. For each recipient/authorized service listed on the POC, the PA table included the date range, total dollar amount, and the outstanding available budget as calculated from historical payment data. Although the specific provider was not identified in the PA table, the available budget by service type acted as a control limit on potential cross-billing by unauthorized providers.

However, this control limit was potentially undermined by the practice of allowing case managers to obtain automatic approval for service budget increases of 10% or less. This practice was discontinued in January 2004 for the DD, A&D and Support Service waivers. Automatic approval for service budgets of 10% or less is still granted for all other waivers, without the compensating control of a mechanism to monitor volume of amendment activity by POC or case manager.

On April 1, 2003, a PA table was activated for the A&D waiver. PA tables were activated for all other HCBS waivers on October 1, 2004.

Even when activated, potential gaps existed in coverage by the PA tables. At the time each PA table was activated, claim payments were applied against the outstanding service budgets from the date of activation forward. Therefore, outstanding available budgets are potentially overstated until the initial budget expires or superseded by an amendment. Although some service types can only be authorized in monthly increments, others can be authorized in increments of up to one year.

On an ongoing basis, potential gaps may persist in coverage by the PA tables due to overlapping service dates between competing POCs. Since INsite is a distributed processing system, case managers have no means of cross-referencing proposed POCs against other case managers' records at the time of issuance. To avoid restricting applicant's ability to choose case managers at will, case managers are not required to submit POCs using unique date ranges. The PA table is updated on a line-by-line basis by the nightly INsite file transfer. If an overlapping date range is encountered for a particular service type, claims payment data for the overlapping dates is sequestered from the claims payment history applied to the outstanding budget going forward. Overlapping service dates do not create PA conflicts for those services which can only be authorized in standardized increments, such as per month. In such cases, the outstanding service budget transfers seamlessly between the prior authorization and the current one.

Any billing improprieties slipping through the gaps in front-end controls caused by partial PA data would potentially be detected by back-end controls, such as audits. However, from January through June 2004 audits of waiver providers were temporarily suspended because of a lapsed contract with EDS. In addition, EDS audit staff were not authorized to assess recoupment amounts until the new contract took effect in July 2004. New documentation standards for potential recoupments, including time-in and time-out according to the time of day, and staff signatures for each service line item, did not become enforceable until January 2005.

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Potential gaps also may persist in OMPP's ability to monitor certain outlier activity by recipient, provider or caseload due to the ability to issue multiple POC amendments with overlapping service dates, and the absence of consistent sharing of provider-based data between INsite and AIM. A voluntary process exists for case managers to request payment histories by caseload, but participation is not widespread.

42 CFR 441.302 states: "Unless the Medicaid agency provides the following satisfactory assurances to CMS, CMS will not grant a waiver under this subpart and may terminate a waiver already granted . . . (b) *Financial Accountability*. The agency will assure financial accountability for funds expended for home and community based services."

Waiver controls continued to evolve throughout the audit period and beyond on an ad hoc basis. We recommended OMPP perform an overall risk assessment of the current status of waiver controls to identify any potentially significant risks that remain unaddressed, and address these risks accordingly.

Status of Finding as of October 2005:

OMPP continues to work to develop improved processes as initially responded. Positive actions have been taken that affect the provision of waiver services, including completing a systems change to provide payment history data automatically for each waiver participant, rather than requiring the case manager to request it. Further, a reorganization of FSSA has created a Division of Aging, separate from the Division of Disability and Rehabilitative Services. Both divisions are involved with OMPP in ongoing risk assessment of the waiver program to continue to monitor methods to tighten control of the program. At the time of this audit, this finding is unresolved.

FINDING 2004 - FSSA-8, PROVIDER ENROLLMENT (HCBS WAIVERS, FIRST STEPS)

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767, 93.778
Auditee Contact Person:	Ann Alley, Julie Ullrich
Title of Contact Person:	Director of SCHIP, FSSA and Deputy Director, OMPP, FSSA
Phone Number:	317-232-4390, 317-233-0237
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Reportable Condition

Finding:

Prior to the formation of the cross-divisional Waiver Unit between the Office of Medicaid Planning and Policy (OMPP) and the Division of Disability, Aging and Rehabilitative Services (DDARS) in early 2004, home and community based service (HCBS) waiver providers were enrolled by DDARS staff under a provider agreement that did not meet Medicaid disclosure standards. Some providers separately executed a Medicaid-compliant agreement with the Medicaid claims payment contractor, EDS, to provide traditionally covered services. An enrollment project to ensure that all waiver providers have executed a Medicaid-compliant agreement is scheduled for completion in early 2005.

In addition, during the audit period, providers participating in the First Steps early intervention program were enrolled by the Division of Family and Children's (DFC's) central reimbursement office (CRO) contractor, Covansys. These providers did not complete a Medicaid-compliant agreement, even though their services were submitted by DFC for reimbursement by EDS if provided to a Medicaid-eligible recipient, as confirmed by data matches to the Indiana Client Eligibility System (ICES).

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42 CFR 455.104 enumerates various provider disclosure requirements for the Medicaid program. We recommended that adequate disclosures be obtained from all First Steps providers whose services are potentially billable to the Medicaid program. We also recommended completion of the HCBS waiver provider enrollment project.

Status of Finding as of October 2005:

Enrollment projects for waiver services and First Steps have not been completed to date, however, considerable progress has been made. The majority of First Steps applications from rendering providers have been submitted to EDS for enrollment. Data entry of these enrollments is currently being worked. As the First Steps enrollment was given priority, the waiver re-enrollment process is scheduled to begin as staffing finalizes the First Steps project. It is anticipated that both these tasks will be completed by first quarter of 2006. This audit finding is unresolved at the time of this audit report but is expected to be resolved in the future.

FINDING 2002 - DWD-1, Grant Receipts

Federal Agency:	Department of Labor
Federal Programs:	Workforce Investment Act Cluster
CFDA Numbers:	17.258, 17.259, 17.260
Auditee Contact Person:	Diana Gushrowski
Title of Contact Person:	Interim Deputy Commissioner of Finance and Administration/Controller,DWD
Phone Number:	317-232-7675
Compliance Requirement:	Period of Availability
Internal Control:	Reportable Condition

Finding:

Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, subpart C, requires that where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period. The grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period to coincide with the submission of the annual Financial Status Report. [29 CFR 97.23 (a) and (b)] Subpart D, requires that the grantee must immediately refund to the federal agency any balance of unobligated (unencumbered) cash advanced that is not authorized to be retained for use on other grants. [29 CFR 97 50 (d)(2)]

At June 30, 2002, we determined that the Department of Workforce Development's records of total federal receipts for the Workforce Investment Act (WIA) program exceeded that of the federal records per the Payment Management System (PMS) by \$1,358,197. To determine the source of the variance, DWD compared each receipt entry recorded in the WIA ledgers for the period July 1998 to June 2002, to the federal records of drawdowns per the PMS 272-E report. DWD identified the variance as the net result of the following:

1. A total of \$1,579,134 consisted of transfers to WIA ledgers of excess receipts and cash balances held in closed JTPA ledgers for grant years P94 to P97. The transfers were recorded in DWD's accounting records in May 2002 and did not have corresponding adjusting entries to the federal PMS records.

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2. A total of \$213,754 was identified as having been drawn down from PMS awards for closed Dislocated Worker projects, but was recorded as revenue to WIA grant ledgers. These projects were not fully expended, yet the PMS records for A1893334A (Grissom) show the award as issued in full, and the draws issued for A189668S (Maytag) exceeded the expenditures.
3. A total of \$434,691 was identified as owed to WIA ledgers on DWD's records, as the WIA draws were incorrectly recorded to ledgers for the Employment Service (17.207), School to Work (17.249), and Labor Certification for Alien Workers (17.203) programs.

We also found federal receipts posted during fiscal 2002 to an expired Dislocated Workers program ledger (7460 P97) that resulted in a cash balance of \$48,013. Additionally, several P96 and P97 ledgers of the Dislocated Workers program retained negative cash balances going back to at least June 2000, which total (\$46,569).

The errors were not identified by DWD in the course of business, as the receipt reconciliation between the PMS system 272 reports to the DWD records were incomplete for the account that included JTPA, WIA, ES, and School to Work. The reconciliation did not ensure that the grant receipts were posted to the correct grant award ledger, or program year of funds and did not compare the cumulative totals reported. The DWD grant closeout procedures were also incomplete for the JTPA and WIA grants. Even though final expenditure reports were filed, cash balances remained and receipts were not agreed to the federal records. Transfers of receipts and cash were also recorded on DWD records without assessing the need for corresponding transfers on the federal payment management system.

We recommended that DWD perform the necessary adjustments either to the federal records or the agency accounting records, as appropriate, in order to have the federal receipt records agree for each grant award. Refunds may be required for the draws obtained from expired funding periods. Reconciliation procedures should ensure that receipts are recorded to the correct grant ledger and fiscal year of funding. Closeout procedures must include analysis of cumulative cash receipts, and refund cash balances in accordance with 29 CFR 97(d)(2).

Status of Finding:

We made adjusting entries on our accounting system, Financial Accounting and Reporting System (FARS) or PMS and refunds to the USDOL as necessary that resolves the \$1,358,197 variance cited as the net result of items 1 through 3 listed in this finding.

We corrected a duplicate revenue entry made in June 2002 on batch number 16 effective with our July 2002 reports and made an adjusting entry in November 2002 per batch number 516 that resolved the \$48,013 cash balance for the Dislocated Workers program ledger (7460 P97). Additionally, we made adjusting entries for the several P96 and P97 Dislocated Workers program ledgers cited as having negative cash balances on batch number 525 in March 2003.

We have performed quarterly total receipts reconciliations since September 30, 1998. The Analysis and Reconciliations Unit (ARU) revamped its quarterly PMS to FARS revenue reconciliation for WIA funds to include the PMS subaccounts effective with the March 31, 2003, reconciliation. This reconciliation is now completed by PMS subaccount to FARS grant ledger and fiscal year. This change in the reconciliation format will help us to ensure that receipts are recorded correctly to our accounting system and help us to identify errors needing adjustments so that they can be made more timely.

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Also, we have completed cumulative WIA receipts reconciliations between FARS and PMS for the periods ending March 31, 2003, June 30, 2003, and September 30, 2003, and we will continue to complete these reconciliations quarterly. These reconciliations were completed from P92 funds forward on FARS to their corresponding PMS subaccounts. We have made FARS or PMS adjustments and refunds as necessary that were identified from these reconciliations. However, we continue to have a FARS versus PMS total receipts difference of \$1,529,062 (FARS receipts greater than PMS receipts) as of the September 30, 2003, reconciliation. We believe this difference pre-dates FARS and for this reason moved this difference to its own ledger (P96 7320). Additional research could not pin point a cause of this discrepancy, so DWD returned the funds to the Department of Labor on June 17, 2004.

The Grant Accounting and Budget and Analysis Units have established procedures to use a checklist including a worksheet to reconcile cumulative cash receipts between FARS and PMS at grant closeout.

DWD has made tremendous improvements to its reconciliation processes since February 28, 1997, upon establishment of the ARU. We shall continue to implement changes to our processes as necessary that will help us to ensure high levels of accountability and accuracy with our accounting system.

FINDING 2003 - IDOE -1, ALLOWABLE COSTS

Federal Agency:	Department of Education
Federal Program:	Title 1
CFDA Number:	84.010
Auditee Contact Person:	Alice Harpel
Title of Contact Person:	Director of Title 1, Division of Compulsory Education
Phone Number:	317-232-2595
Compliance Requirement:	Allowable Costs/Cost Principles

Finding:

The Indiana Department of Education (DOE) is the state educational agency (SEA) who administers Title 1 funds to the local educational agencies (LEAs). DOE incurs Title 1 administrative costs associated with the program and pays settlements through claims processed by the Auditor of State.

During our audit of the Title 1 allowable costs requirement, we found that DOE has been paying for personal services through claims for "honorariums" to a retired DOE employee. The individual retired as of May 23, 2003, and began "honorarium" services on May 27, 2003. DOE processes these claims through their internal Request for Approval of Nonpayroll Personal Services form, which DOE refers to as the "yellow sheet." The "yellow sheet" contains objectives and activities for "honorarium" services and department approval for authorization of such services.

Per OMB A-87, costs must be reasonable and necessary for the performance and administration of Federal awards. The daily rate for services on these "honorarium" claims is \$500 per day. That is more than twice the rate the individual was being paid as an employee when the cost of fringe benefits is considered. The objectives and activities stated on the claims for services provided are virtually identical to those services the individual performed as an employee. In addition, the documentation does not support that payments of these "honorarium" services are only temporary. As of February 1, 2004, for the period June 6, 2003 to January 8, 2004, DOE has paid claims to this individual in the amount of \$48,500.

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We determined that a reasonable rate of pay should be based on the individual's salary at time of retirement and, since the cost of fringe benefits are allowable, if reasonable, the cost of fringe benefits at an estimated 40% of his/her salary. We calculated that a reasonable payment for the 97 days of service from May 27 to December 30, 2003, should be \$21,327.39.

OMB A-87, Attachment B, Selected Items of Cost, Compensation for Personal Services (11b), states in part: "Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit."

As of February 1, 2004, we consider the amount of \$27,172.61 to be a questioned cost. We recommended that DOE ensure that Title 1 funds are used only for reasonable costs.

Status of Finding:

In a letter dated September 30, 2005, to Dr. Suellen Reed from Mr. Henry Johnson, Assistant Secretary for Elementary and Secondary Education, the U.S. Department of Education (ED) did not concur with the auditors' finding and recommendation. ED did state that DOE must review its policy and consider revising it in light of the concerns raised. ED also strongly suggested that DOE consider changes to ensure that payments to consultants – both those paid with State as well as Federal funds – reflect the scope of work required.

DOE has reviewed and revised our policy for Approval of Non-Payroll Personal Services Requests. We responded to Mr. Johnson's letter on December 9, 2005. A copy of Mr. Johnson's letter and DOE's response and revised policy are attached. We consider this finding resolved.

FINDING 2003 - IDOE -2, ALLOCATION OF EXPENDITURES

Federal Agency:	Department of Education
Federal program:	Improving Teacher Quality State Grants, Title 1
CFDA Number:	84.367, 84.010
Auditee Contact Person:	Yvette Hauser
Title of Contact Person:	Director of Accounting, IDOE
Phone Number:	317-232-0511
Compliance Requirement:	Allowable Costs/Cost Principles

Finding:

During our testing of expenditures, we found disbursements for computer hardware and software, some of which was allocated across various federal programs that benefited from the items purchased. There was no calculation method with a reasonable allocation base used to determine the amounts charged to the Improving Teacher Quality State Grants or Title 1 programs.

According to OMB Circular A-87, Attachment A, to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of OMB Circular A-87 and be determined in accordance with generally accepted accounting principles. A cost is allocable to a particular cost objective if the goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

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According to OMB Circular A-87, Attachment C, indirect costs allocations must be allocated based on a reasonable and consistent basis, and supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards.

The amount of costs assigned to the Improving Teacher Quality State Grants program is \$10,000. The amount of costs assigned to the Title 1 program is \$60,000. These amounts are questioned costs for the respective programs.

We recommended that IDOE use a cost allocation base and calculation that complies with the requirements of OMB Circular A-87 and determine if any funds need to be returned to the respective programs.

Status of Finding:

In the September 30, 2005, letter from Mr. Henry Johnson, referenced above, ED sustained the auditors' finding and agreed with the recommendation. As corrective action, Ed requested that DOE submit a cost allocation plan documenting how each program's share of the information technology upgrades had been determined.

In our December 9, 2005, response, DOE explained the one-time circumstances of the IT upgrades and our basis for charging numerous programs, both State and federal, what we believe are reasonable and equitable amounts. We stated that in the future if a similar circumstance occurs, a formal plan that takes advantage of allocated central services provisions, as explained in OMB A-87, will be crafted and utilized. As stated above, a copy of Mr. Johnson's letter and our response are attached. At this time we have not received a response from the U.S. Department of Education to our December 9 letter; this finding is unresolved.

FINDING 2003 - IDOE -3 and FINDING 2004 - IDOE -4, ALLOCATION OF SALARY EXPENSE

Federal Agency:	Department of Education
Federal program:	Improving Teacher Quality State Grants
CFDA Number:	84.367
Auditee Contact Person:	Tracy Brown
Title of Contact Person:	Fiscal Officer, Center for School Improvement, IDOE
Phone Number:	317-232-6974
Compliance Requirement:	Allowable Costs/Cost Principles

Finding:

During our testing of expenditures, we found five employees paid completely out of the Improving Teacher Quality State Grants [ITQSG] program that were not working solely on the program. Four of these worked on the ITQSG program and other Federal programs. One did not work on any Federal program, but was paid from the ITQSG program between July 2003 and February 2004.

According to OMB Circular A-87, Attachment B, section 11(h)(4), where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards of section 11(h)(5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency as defined in section 11(h)(6).

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According to OMB Circular A-87, Attachment B, section 11(h)(1), charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.

The amount of salaries and fringe benefits, calculated at an estimated 32% of salary paid, for the four employees working on the ITQSG program and other Federal programs is \$127,402.61 for the year ending June 30, 2003. The amount of salaries and fringe benefits, calculated at an estimated 32% of salary, for the employee working solely on non-Federal activities is \$18,173.38. This is a total questioned cost to the ITQSG program of \$145,575.98.

We recommended that IDOE determine the distribution of these employees' salaries and fringe benefits that complies with the requirements of OMB Circular A-87 and determine the amount of funds to be returned to the Improving Teacher Quality State Grants program.

Status of Finding:

The U.S. Department of Education sustained this finding and recommendation. ED requested that DOE provide documentation clearly showing the calculation of the credit relating to the four individuals that resulted in the credit of \$100,729.52. Also, DOE is to provide evidence that we now use time-and-effort activity reports for employees working on the ITQSG program.

The DOE response of December 9, 2005, provided copies of the journal voucher credits to the ITQSG program and documentation to verify how the credits were computed. We also explained that an \$8,770.61 error had occurred and when this error would be corrected.

Additionally, our response contained information on the Personal Activity Reports (PARS) that are now being maintained by the 5 employees referenced in the audit finding, and we provided an explanation that the percentages derived from the PARS would be used to calculate all subsequent credits to the ITQSG program.

Copies of the journal vouchers, spreadsheets showing the calculations, and PARS are attached.

This finding was repeated in our fiscal 2004 A-133 audit as Finding 2004-IDOE-1. With the implementation of PARS, as prescribed in OMB A-87, we consider these findings resolved.

STATE OF INDIANA
SECTION II CORRECTIVE ACTIONS

The following are the corrective actions for section II findings.

FINDING 2003 - CAFR-1, CAPITAL LEASES

State Agency: Indiana Department of Administration
Auditee Contact Person: Michael Degner
Phone Number: 317-232-3196

Status March 2005 for 2004 report:

In recognition that there was a possibility that some leases might not be included and in response to an audit finding by the Board of Accounts we included as a goal for the State's e-procurement project the capture of all leases in the State's procurement database. This project was implemented in October 2004. The new process requires that all agencies subject to or utilizing Department of Administration Procurement Division to enter all purchases above \$500 for points 3, 4, and 5 into PeopleSoft via a requisition and then issue a PeopleSoft Purchase Order. Beginning with fiscal year 2005 the Department of Administration will be able to run a report that captures all purchases that might be eligible for consideration as a capital lease. For the 2004 fiscal year we utilized the survey process that has been used in past years.

Status May 2006:

As stated in the response for 2004, the Department of Administration will continue to enhance the use of the PeopleSoft systems to maintain capital assets. The Procurement training staff will emphasize identifying and marking capital assets in their course for agency buyers. The Controller's staff will monitor agency utilization of the system and assist agencies that do not follow up with transfers from the purchasing system into the asset system.

FINDING 2005 - CAFR-1, CAPITAL ASSETS

State Agency: Auditor of State of Indiana
Auditee Contact Person: Bill Lantz
Phone Number: 317-233-9819

The Auditor of State is responsible for maintaining records of capital assets, including purchase and retirements that exceed \$20,000, as reported by the state agencies making the purchase or retirement. As stated in the audit finding, individual state agencies are responsible for maintaining their own records of all capital assets, physically tagging assets, conducting an annual physical inventory of assets, and comparing the results of such inventory to the Auditor of State's most recent records. Each quarter the Auditor of State notifies state agencies of their responsibility to report to the Auditor State all purchases or retirements since the last quarter, and that quarterly reports must be filed. However, the Auditor of State does not have the authority to audit state agency capital asset records to determine if the agencies are recording or properly reporting capital assets valued over \$20,000.

The State of Indiana will be implementing the PeopleSoft capital asset module as part of the overall PeopleSoft implementation scheduled for July 1, 2007. The capital asset module will allow the State to track all capital assets on a single capital asset system, thereby eliminating the need to periodically report purchases and retirements. The capital asset module will be directly linked to the procurement module allowing capital assets to be capitalized at the time of purchase, thereby reducing the likelihood that assets will not be properly capitalized.

Until the implementation of the PeopleSoft capital asset module on a statewide basis, the Auditor of State's office will continue to remind agencies, on a quarterly basis, of their requirement to report capital asset purchases and retirements of over \$20,000.



"People
helping people
help
themselves"

Mitchell E. Daniels, Jr., Governor
State of Indiana

Indiana Family and Social Services Administration

402 W. WASHINGTON STREET, P.O. BOX 7083
INDIANAPOLIS, IN 46207-7083

E. Mitchell Roob Jr., Secretary

To: Bruce Hartman, State Examiner
State Board of Accounts

From: Anne Murphy 
Family and Social Services Administration

Date: May 17, 2006

Re: Response to State Board of Accounts' Audit for Period ending June 30, 2005

Attached you will find FSSA's responses to the State Board of Accounts audit for the period ending June 30, 2005. We look forward to working together to ensure FSSA's programs' delivery of service, efficiency and integrity.

If you have any questions regarding our corrective action plans, please feel free to contact me.



FINDING 2005 – FSSA-1, CASH MANAGEMENT DOCUMENTATION OF PROCEDURES

Federal Agency:	Department of Health and Human Services
Federal Program:	Various
CFDA Number:	Various
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Finance, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Cash Management
Internal Control:	Reportable Condition

Audit Response:

FSSA Finance reconciles each fund center on a weekly basis. The weekly reconciled federal expenditures are then drawn from the appropriate federal grant(s). The implementation of PeopleSoft will enhance the ability to trace specific expenditures to federal draws. There is a lack of formal written procedures within the Cash Management section of Finance. Finance is currently in the process of writing formal procedures for Cash Management.

FINDING 2005 – FSSA-2, CASH MANAGEMENT SCHIP TEMPLATE

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SCHIP)
CFDA Number:	93.767
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Finance, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Cash Management
Internal Control:	Reportable Condition

Audit Response:

The check clearance pattern was not properly updated for the beginning of the fiscal year. The data was not transferred to the spreadsheets accurately during the prior fiscal year. The recording of the check clearance pattern has been assigned to an accountant at the end of every quarter and has been consistently entered immediately at the end of every quarter. The accuracy of the spreadsheet is being checked by another person to verify that the reports and spreadsheet match. The check clearance pattern for fiscal year 2006 will be ready to be entered into FETS on July 1, 2006 for the 2007 fiscal year. As the new PeopleSoft system is implemented, automation of this process will be enhanced. In addition, daily automatic audits for cash balances will occur.

FINDING 2005 – FSSA-3, LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM (LIHEAP) – SUBRECIPIENT MONITORING

Federal Agency:	Department of Health and Human Services
Federal Program:	Low-Income Home Energy Assistance Program
CFDA Number:	93.568
Auditee Contact Person:	Cortne O'Neill
Title of Contact Person:	Section Manager, LIHEAP
Phone Number:	317-232-7050
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Reportable Condition

Audit Response:

The concern of this finding was that the Community Action Agencies (CAAs) would be able to hide files, thereby restricting the scope of sample selection.

In the case of 12 of the 24 CAAs, the files are available via a web-based program which allows the Quality Assurance Consultants to extract file lists from the database prior to a monitoring visit. The remaining 12 agencies are scheduled to go to the web-based system prior to the beginning of the 2006/2007 Heating program. As a part of these negotiations, the contract with the software vendor includes a new module which will do a random generation of cases, which would be utilized by the Consultants for monitoring purposes.

Finally, for those agencies which are not currently on the web-based system, it should be noted that each piece of the review process is tied to another component, making it impossible for the agency to exclude files from the process. For example, as part of the Energy Assistance program review, the Consultant would pull fiscal information, as well as client info. A transmittal to a vendor would be tied back to the client file. This would be true in the reverse, as well. Lack of a file or lack of documentation of that client info on a transmittal would result in a finding.

As an additional note, as part of House Bill 1261, LIHEAP will be transferring to Indiana Housing and Community Development Authority (IHCDA) under the Office of the Lt. Governor effective July 1, 2006. FSSA will ensure that IHCDA is aware of the negotiations with the software vendor to ensure that this module is effectively transitioned with the LIHEAP program.

FINDING 2005 – FSSA-4, PSC 272 QUARTERLY REPORTS

Federal Agency:	Department of Health and Human Services
Federal Program:	Title IV-D and Child Care Center
CFDA Number:	93.563 and 93.575/93.596
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Finance, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition

Audit Response:

The PSC 272 reports were completed based on federal draw systems. A reconciliation process will be implemented to ensure that the total of the Current – Cumulative Disbursement column matches to the total of the balance of a PIN within FETS. The correct rules for recording disbursements on the PSC 272 will be followed in the future. A new reconciliation will need to be developed after the full implementation of PeopleSoft Financials. This new process will be completed by October 2006.

FINDING 2005 – FSSA-5, SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE-REPORTING

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program, Child Support, Child Care Center
CFDA Number:	93.778, 93.563, 93.575, 93.596
Auditee Contact Person:	David Nelson
Title of Contact Person:	Director of Finance, FSSA
Phone Number:	317-232-7088
Compliance Requirement:	Cash Management
Internal Control:	Reportable Condition

Audit Response:

The Finance accountant responsible for cash management retired in May 2005. Due to inadequate written procedures, the report for SFY 2005 had to be adjusted multiple times. A report was submitted reconciling the overall balance for the expenditure reimbursements and disbursements for all grants within the Federal Expenditure Tracking System (FETS) to actual draws of federal funds. This report included expenditures for grants not included in FETS. The implementation of PeopleSoft will allow for an electronic version of the report to be produced instead of using a spreadsheet. All grants and the individual transactions that affect them will be tracked within PeopleSoft. The process will no longer be dependent upon individual staff knowledge or capability.

FINDING 2005 – FSSA-6, INDEPENDENT PEER REVIEWS, DIVISION OF MENTAL HEALTH

Federal Agency:	Department of Health and Human Services
Federal Program:	Prevention and Treatment of Substance Abuse
CFDA Number:	93.959
Auditee Contact Person:	John Viernes
Title of Contact Person:	Deputy Director, DMHA
Phone Number:	317-232-7913
Compliance Requirement:	Special Tests and Provisions-Peer Reviews
Internal Control:	Reportable Condition

Audit Response:

DMHA agrees with this finding and has begun to correct this problem. The process for peer reviews is being reviewed from a selection of reviewers, selection of providers, site visit protocols, site visit finding reports and report documentation, with the requirement that the peer review process be manualized. The new review process will be implemented for the fiscal year 2007.

FINDING 2005 – FSSA-7, SAPT – MAINTENANCE OF EFFORT

Federal Agency:	Department of Health and Human Services
Federal Program:	Prevention and Treatment of Substance Abuse (SAPT)
CFDA Number:	93.959
Auditee Contact Person:	John Viernes
Title of Contact Person:	Deputy Director, DMHA
Phone Number:	317-232-7913
Compliance Requirement:	Maintenance of effort
Internal Control:	Reportable Condition

Audit Response:

There have been two initiatives to address the MOE shortfalls over the past year. The first was to request to the Center for Substance Abuse Treatment (CSAT) to exclude gambling funds from prior year state funds expenditures where funds were expended for substance abuse treatment. The rationale behind this exclusion is the guidance received from CSAT that only funds allocated by the legislature to the principle agency for the expenditure of substance abuse treatment may be counted toward the MOE. They have agreed to review state expenditures and have requested as of April 21, 2006 that the state request technical assistance from CSAT to recalculate the state's MOE. A formal request for the technical assistance (TA) has been requested. The electronic form for the TA has been completed and the formal letter was forwarded in April 2006. Preliminary information has been requested by CSAT regarding the difference of excluding the gambling funds for the MOE

recalculations. From their review, they believe at this time, that through recalculation of the MOE, Indiana will be in compliance. As a result, third quarter funds from the SAPT Block Grant for FFY '06 have been approved for release to the state.

The second initiative that has been implemented is that \$500,000 was requested from Indiana's Office of Management and Budget, to supplement the addictions line item for expenditures in the area of alcohol, tobacco, and other drugs. This request for state funds was approved and \$250,000 will be expended with the Alcohol Tobacco Commission for the Division's initiatives in the inspections of vendors statewide for tobacco sales to minors (Sec.300x-30). These expenditures will count toward the MOE requirement in SFY '06 and SFY '07.

These two initiatives will lower the overall requirement. The Division's expectation is that the recalculation will remedy the MOE expenditures until additional state dollars are added to the budget for substance abuse treatment and prevention.

FINDING 2005 – FSSA-8, MINIMUM PRIMARY PREVENTION REQUIREMENT NOT MONITORED, DIVISION OF MENTAL HEALTH AND ADDICTION

Federal Agency:	Department of Health and Human Services
Federal Program:	Prevention and Treatment of Substance Abuse
CFDA Number:	93.959
Auditee Contact Person:	John Viernes
Title of Contact Person:	Deputy Director, DMHA
Phone Number:	317-232-7913
Compliance Requirement:	Earmarking
Internal Control:	Reportable Condition

Audit Response:

A review process for contractors' claims will be initiated at the Division to assure monitoring of prevention expenditures to meet the 20% set aside. The process will include creating specific spreadsheets for each Prevention contractor including expenditure detail to support the provider's submissions for claims payment.

The Program Director for Prevention will establish with the PRC a process where detailed claims information will be forwarded to the Division to track expenditures.

Finally, the Program Director for Prevention will be enrolled into the Contract Management Systems training to understand how detailed claims information can be retrieved. The Director will then be able to ensure all prevention contractor expenditures meet the 20% set aside target.

FINDING 2005 – FSSA-9, SITE VISITS, DIVISION OF MENTAL HEALTH AND ADDICTION

Federal Agency:	Department of Health and Human Services
Federal Program:	Prevention and Treatment of Substance Abuse
CFDA Number:	93.959
Auditee Contact Person:	John Viernes
Title of Contact Person:	Deputy Director, DMHA
Phone Number:	317-232-7913
Compliance Requirement:	Subrecipient Monitoring
Internal Control:	Reportable Condition

Audit Response:

Beginning with fiscal year 2007, all site visits will be documented within DMHA. A file maintenance system will be established with an electronic backup for all site visit files.

FINDING 2005 – FSSA-10 OVERPAID AND UNDOCUMENTED MANUAL PAYMENTS ISSUED

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SHIP), Medical Assistance Program
CFDA Number:	93.767 and 03.778
Auditee Contact Person:	Pat Casanova and Jeanne LaBrecque
Title of Contact Person:	Director of SCHIP and Director of OMPP
Phone Number:	317-232-4390 and 317-234-2407
Compliance Requirement:	Allowable Costs, Cost Principles
Internal Control:	Reportable Condition

Audit Response:

Four payments were identified as questioned costs to the federal program.

We agree that a portion of one of the four identified payments needs to be refunded to CMS. We agree the interim payment to a hospital was incorrectly calculated and that the provider was overpaid \$623,100.80. The federal share of the overpayment will be refunded to CMS.

We are evaluating the questioned costs to determine the history, form a conclusion, and present a course of action.

We agree that the current procedures for OMPP's review and approval for payout and manual check requests need to be reevaluated in light of the findings. Further analysis is required to determine how the current procedures should be modified to improve and expand existing controls.

FINDING 2005 – FSSA-11 DENTAL CORPORATION CLAIMS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Utilization Control and Program Integrity
Internal Control:	Reportable Condition

Audit Response:

Edit 1008 "Rendering Provider Must Have an Individual Provider Number" is only applied to group providers with rendering providers linked. Per the Indiana Health Coverage Programs Provider Manual, the following provider types are enrolled as billing providers only: 04 Rehabilitation Facilities, 12 School Corporations, 19 Optician, 25 Durable Medical Equipment, 26 Transportation, and 28 Laboratory. Thus edit 1008 does not apply to these provider types. For these provider types the Surveillance and Utilization Review (SUR) team holds the billing provider accountable for the overall pattern of services rendered. When a SUR audit is conducted for this type of billing provider, the medical record is reviewed to determine who rendered the services and if it was appropriate for that employee to render that service.

OMPP concurs that additional review of edit 1008 is necessary and will work with the fiscal agent to develop a communication plan that allows for timely notice and additional enrollment for rendering dental providers. Upon completion of this plan, edit 1008 will be reactivated to appropriately ensure the required provider fields are filled out.

The following provider types will be evaluated to determine if additional information is necessary for rendering providers: Title V Clinics 08, Public Health Departments 13, and Radiology Provider 29.

FINDING 2005 – FSSA-12, DUPLICATE CLAIMS IDENTIFIED BY CONTRACTOR

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

Audit Response:

Under a contract with Myers & Stauffer to review claims payment and recover overpayment findings, one study revealed that overpayments were occurring for Crossover 'B' and 'C' claims due to the fact that the duplicate edit logic was being applied at the header level versus the detail level. OMPP approved Myers and Stauffer to recover claims for years prior to 2000 which affected 18 providers. Duplicate claim logic for crossover claims was added in 2002. A mass adjustment by EDS, the fiscal agent responsible for claims adjudication, was approved for those claims affected for years between 2000 through 2002. There were 32 providers involved with this adjustment.

OMPP agrees that not all of the claims identified for the mass adjustment were adjusted. OMPP will be working in conjunction with EDS, to adjust the remaining claims. Additionally, Myers and Stauffer will provide SBOA with hard copy documentation regarding their recovery of those claims associated with the 18 providers.

OMPP will coordinate with their contractors to fully document the identification process of duplication payments, and create flow charts to describe the recovery process. The documentation process will be improved, even though accuracy and collection of prior adjustments may be difficult.

FINDING 2005 – FSSA-13, INPATIENT HOSPITAL DUPLICATES NOT DETECTED

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program, State Children's Health Insurance Program (SCHIP)
CFDA Number:	93.778, 93.767
Auditee Contact Person:	Jeanne LaBrecque, Ann Alley
Title of Contact Person:	Director of OMPP, Director of SCHIP
Phone Number:	317-234-2407, 317-232-4390
Compliance Requirement:	Allowable Costs/Cost Principles
Internal Control:	Reportable Condition

Audit Response:

Currently, Medicaid's fiscal agent, EDS, performs a quality control check to ensure accurate adjudication of claims through the claims processing assessment system (CPAS) report. CPAS selects a statistically valid random sample of different claim types in various statuses on a monthly basis. As part of the review, a quality check occurs for the random sample to ensure accurate processing, which includes editing, auditing, and pricing. In addition to the current process of CPAS, OMPP will coordinate with the fiscal agent to create an additional ongoing audit. EDS will identify claims paid with a date of service for the same recipient to determine if claims have been paid in error. If payments have been made in error, adjustments will occur.

EDS will review the balance of the fiscal year ended June 30, 2005 for possible duplicate inpatient claims as recommended by the State Board of Accounts findings, and EDS will work in conjunction with OMPP to adjust any claims that were paid for duplicate services.

FINDING 2005 – FSSA-14, CONTRACTOR MONITORING – DESK REVIEWS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Inpatient Hospital Audits
Internal Control:	Reportable Condition

Audit Response:

Currently, the compliance unit and fiscal operations team conduct onsite reviews of audited cost reports. While OMPP believes that there has been adequate monitoring of our rate-setting contractor's hospital desk review processes, we do concur that there is a need to develop and implement written procedures to ensure consistency in our evaluation and review practices.

OMPP staff is working in collaboration with FSSA Audit staff to develop audit processes that will be used to monitor Myers and Stauffer performance of contracted duties regarding hospital desk reviews. The processes will include testing attributes which OMPP feels are pertinent indicators of Myers and Stauffer's performance of their contracted duties. These uniform processes will ensure consistent monitoring of the cost report desk review process performed by Myers and Stauffer.

FINDING 2005 – FSSA-15, C&T PROCESS – MONITORING OF CONTRACTOR

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Provider Health and Safety Standards
Internal Control:	Reportable Condition

Audit Response:

The Office of Medicaid Policy and Planning (OMPP) recognizes that there is a need for additional written procedures regarding the processing and reviewing of the C&T process to ensure that the fiscal contractor receives all necessary documentation regarding facilities that require surveys by the Indiana State Department of Health (ISDH).

This will be a component of an OMPP project to review the provider enrollment procedures conducted by Medicaid's fiscal agent for the provider enrollment function. A review of files that include C&Ts will be added in the requirements for on-site visits to monitor the handling of C&Ts. Additionally, current provider enrollment procedures will be reviewed to develop a stronger link to the ISDH and /or Certifying Agencies. Written procedures will also be developed for these on-site visits to ensure consistency in OMPP's evaluation and review practices

FINDING 2005 – FSSA-16, TRACKING OF CERTIFICATION & TRANSMITTAL (C&T)

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Provider Health and Safety Standards
Internal Control:	Reportable Condition

Audit Response:

OMPP recognizes that there is a need for additional written procedures regarding the processing of C&Ts to ensure that the fiscal contractor receives and maintains all current, pertinent documentation regarding facilities that require surveys by the Indiana State Department of Health (ISDH).

As SBOA recognizes, it is the responsibility of the ISDH to notify the Medicaid and Medicare offices when a facility has failed to meet certain standards of participation. There are procedures in place to receive notification, but due to staff turn over, written communication procedures for these divisions should be detailed to ensure appropriate staff receives the required documentation. This plan will be developed in conjunction with the OMPP project review.

Currently, OMPP's fiscal contractor, EDS, logs all C&Ts into their Electronic Document Tracking System. The C&Ts are date stamped and assigned a tracking number when they are received. This ensures that a record of action taken on a particular document is created, but a

standard procedure which ensures that all required C&Ts are received would increase tracking controls.

OMPP will take steps to add processes that allow the provider enrollment unit to recognize when providers do not have a current C&T and track when providers have been found to be deficient in their conditions of participation requirements that require follow-up action for continued eligibility. There will be an addition of a tickler system which will flag these types of situations to facilitate tighter controls over C&T tracking and handling.

This concern will be added as a component of the OMPP project to review and modify the provider enrollment procedures conducted by Medicaid's fiscal agent for the provider enrollment function.

FINDING 2005 – FSSA-17, CONTRACTOR MONTHLY STATUS REPORT STATISTICS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Reportable Condition

Audit Response:

The current monthly status report is a summary level report of several business areas, and therefore does not provide detailed documentation. The responsibility to review the report currently is shared among OMPP staff. Each business unit has held the responsibility to review and conduct additional validation of statistics and contract compliance as it pertains to that unit. OMPP agrees that additional standardization and procedures should be clarified regarding monitoring contract performance and compliance.

OMPP has already taken steps to increase oversight of current contracts by adding a Compliance Unit to its division. This unit will be responsible for ensuring that there are effective contract monitoring procedures in place and followed which meet the expectations of FSSA management staff. Additionally, OMPP is also developing a Contract Manager position whose duties will include management of key vendor contracts. To review the current measures in place, a workgroup will be convened with the responsible OMPP point of contacts, led by the Deputy Director of OMPP. A full analysis of current business needs, outcomes and metrics will be considered by this workgroup, as well as the basic report format as suggested by SBOA. The resulting procedures and deliverables will be documented for OMPP management to ensure that on-going practices comply with this review. Documented changes to the monthly status report will only be approved by OMPP management staff.

FINDING 2005 – FSSA-18, INACTIVE PROVIDER RECORDS

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Reportable Condition

Audit Response:

OMPP recognizes that a documented process for purging inactive provider enrollment records should be developed. OMPP has already identified this concern and taken action to correct the problem. EDS Change order #253 requires that non-managed care providers who have failed to bill within an eighteen month period will be disenrolled. The disenrollment process will include notifying the provider in advance of the action in accordance with provider termination processes. A systematic quarterly report will identify those providers, and forward to provider enrollment for action. The status of this change order will be reviewed during the Change Control Team meetings now tasked with the responsibility to prioritize and monitor change orders.

FINDING 2005 – FSSA-19, ONGOING OUT-OF-STATE LICENSE VERIFICATION

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Reportable Condition

Audit Response:

The Provider Enrollment unit within the fiscal agent enrolls most out-of-state providers using the renewal date that coincides with the provider's license expiration. Providers must submit updated enrollment documentation including licensure information to recertify their participation in Indiana Medicaid. Provider types 24 (pharmacy) and 28 (laboratory) are currently excluded from this requirement. An additional control mechanism requires that out-of-state providers submit prior authorization requests for services.

Information processes with out-of-state providers cannot be automated. However, with the implementation of the National Provider Identifier, there will be increased controls

mechanisms to review out-of-state providers. OMPP agrees to evaluate current processes to determine if additional manual mechanisms can be added to ensure that timely reviews are conducted for out-of-state providers.

FINDING 2005 – FSSA-20, TIMELY FOLLOW-UP OF LICENSE TERMINATION

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778: 93.676
Auditee Contact Person:	Jeanne LaBrecque; Pat Casanova
Title of Contact Person:	Director of OMPP; Director of SCHIP
Phone Number:	317-234-2407; 317-234-2182
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility; Allowable Costs/Costs Principles
Internal Control:	Reportable Condition

Audit Response:

Currently, the Provider Enrollment Unit manually terminates providers that are reported as not licensed by the Indiana Health Professions Bureau data file. Provider Enrollment notifies each identified provider through a letter of termination due to failure to have an active license as required by state code. The termination date given on the notice is the end date on the individual provider's IndianaAIM record. At this time, IndianaAIM does not capture the actual license expiration date. Provider Enrollment tracks the individual provider's license expiration date on a spreadsheet. The Systems Department uses this spreadsheet to create a query to identify providers who have been reimbursed for services rendered between the license expiration date and the end date reflected in IndianaAIM. The query results are combined with other documentation to initiate a mass adjustment request that initiates the recovery process. The payments identified by SBOA will be included in a future mass adjustment request.

The current manual process is time consuming and has potential for data errors and missteps. Provider Enrollment will develop a monthly system generated report. In addition, Provider Enrollment is developing high level requirements for EDS change order 939, License Window. This change order will create a new window to capture the license number, effective date, expiration date, and the state that issued the license. The license information will be verified against the Health Professions Bureau data file. In an effort to further automate the process, Provider Enrollment is researching whether a new claim edit can be created using the license expiration date.

FINDING 2005 – FSSA-21, PROVIDER ENROLLMENT - CONTRACTOR MONITORING

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Special Tests and Provisions – Provider Eligibility
Internal Control:	Reportable Condition

Audit Response:

OMPP concurs there has been a lack of on-site sampling of provider enrollment files in the recent past due to limited staff resources. However, there have been on-going assessments of the provider enrollment procedures as new procedures are implemented, as well as direction to develop additional systematic auditing mechanisms. Specifically, a new document tracking system is nearing production implementation that will allow for additional monitoring controls and reporting criteria of the enrollment process. This will closely track receipt and loading of enrollment information.

Medicaid is also in the process of hiring additional staff. One individual will be tasked with the responsibility to monitor the provider enrollment function at Medicaid's fiscal agent contractor. This individual will work in conjunction with the newly developed compliance unit at OMPP in establishing a set schedule and written guidelines for on-site monitoring of provider enrollment files, which will also include a review of the current enrollment procedures to ensure the procedures are in accordance with established policy. Further, an assessment of overall provider enrollment procedures will be completed in conjunction with a project that is being initiated by OMPP for a review of the provider enrollment function by Medicaid's fiscal agent.

FINDING 2005 – FSSA-22, ADP REVIEW NOT PERFORMED

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Hospital Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Pat Casanova and Jeanne LaBrecque
Title of Contact Person:	Director of SCHIP, and Director of OMPP
Phone Number:	317-234-2182 and 317-234-2407
Compliance Requirement:	N.3. ADP Risk Analysis and System Security Review
Internal Control:	Reportable Condition, Material Weakness

Audit Response:

OMPP is convening an internal team to develop an audit plan for the AIM system. The resulting audit(s) and analysis will be completed by June 2007.

FINDING 2005 – FSSA-23, AIMS CONTRACTOR ACCESS ASSIGNMENTS AND CONTROLS NOT MONITORED

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Hospital Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Pat Casanova and Jeanne LaBrecque
Title of Contact Person:	Director of SCHIP, and Director of OMPP
Phone Number:	317-234-2182 and 317-234-2407
Compliance Requirement:	N.3. ADP Risk Analysis and System Security Review
Internal Control:	Reportable Condition

Audit Response:

EDS performed an extensive review of its staff access to AIMS as part of the implementation of HIPAA security regulations. The access of EDS staff to the AIMS is role based, approved by management, and is monitored by the EDS Security Coordinator. OMPP reviewed and approved the current policies and procedures related to EDS staff access to AIMS that does include periodic monitoring by EDS security staff to ensure that access is appropriate and is modified or terminated as required. EDS provides OMPP with updates regarding security as part of OMPP's monitoring of EDS compliance with HIPAA privacy and security regulations. OMPP is in the process of hiring an additional staff person for privacy/security. Duties will include a review of EDS staff's access to AIM.

FINDING 2005 – FSSA-24, OMPP AIMS ACCESS ASSIGNMENTS AND CONTROLS NOT MONITORED

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Hospital Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Pat Casanova and Jeanne LaBrecque
Title of Contact Person:	Director of SCHIP, and Director of OMPP
Phone Number:	317-234-2182 and 317-234-2407
Compliance Requirement:	N.3. ADP Risk Analysis and System Security Review
Internal Control:	Reportable Condition

Audit Response:

The OMPP security manual referred to in this finding was superseded by the OMPP Security Policy and Procedures Manual which became effective during state fiscal year 2004-05.

As part of the implementation of HIPAA, Security rule procedures were developed and implemented to grant, terminate, and monitor OMPP access in the AIMS in April 2005. These are detailed in Section 5 of the OMPP HIPAA Security Policy and Procedure Manual. The need for all OMPP staff positions to have access to the AIMS was evaluated and access was granted according to this new role based approach, which applies the minimum necessary standard to the level of access granted.

Periodically OMPP supervisors review the position class summary for their business unit to authorize the access that is required for their staff to perform their assigned duties. OMPP is in the process of hiring an additional staff person to work in the privacy/security area that will conduct the audit of the AIM access.

FINDING 2005 – FSSA-25, DETAIL ACCOUNTING NOT PRODUCED

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Health Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Pat Casanova and Jeanne LaBrecque
Title of Contact Person:	Director of SCHIP, and Director of the OMPP
Phone Number:	317-234-2182 and 317-234-2407
Compliance Requirement:	Allowable Costs, Cost Principles
Internal Control:	Reportable Condition

Audit Response:

The MAR, Management and Administration Reporting subsystem business function is a comprehensive management tool that provides information to evaluate program status and trends as well as historical data to predict the impact of program policy changes. MAR also supports the CMS reporting requirements for MSIS, and the CMS64 and CMS372 series of reports. MAR does this by providing high-level data summarized by such variables as state category of service, aid category, provider type/specialty, benefit plan, et al. To satisfy federal reporting requirements, data are aggregated by CMS-defined line items, often categories of service.

When detail transactions reports are needed to support the totals on the MAR summary reports, this can be done using OMPP's primary query tool, Business Objects. Business Objects sits on a version of the full AIM database which is updated weekly instead of daily. It contains all claims-based transactions, accounts receivable, and manual expenditures. In Business Objects, all paid and denied claims are maintained at the claims detail-level.

FINDING 2005 – FSSA-26, REPORTING SYSTEM WITHOUT OF BALANCE CONDITION

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Hospital Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Pat Casanova and Jeanne LaBrecque
Title of Contact Person:	Director of SCHIP, and Director of OMPP
Phone Number:	317-234-2182 and 317-234-2407
Compliance Requirement:	Allowable Costs, Cost Principles and Reporting
Internal Control:	Reportable Condition

Audit Response:

FSSA is currently working with EDS, its fiscal agent contractor, to reconcile the MAR reporting system quarterly CMS64 report to the weekly financial report series. A quarterly comparison between the CMS64 and financial reporting is currently prepared, and reviewed with FSSA Finance. Several identified differences have been documented and quantified; however, an unidentified difference averaging 0.14% per quarter (\$1.6 million difference/\$1.0 billion total spend) is still being researched. Identified differences include the handling of accounts receivables transactions, quality assessments, and specific financial expenditures. After the reconciliation process is complete, and all differences are identified, a decision will be made whether to more closely adjust the timing of MAR to financial.

Since FSSA is confident that the reconciliation of actual claims payments is appropriate and can be balanced to the FIN-8000 report, FSSA holds that all payments to providers running through the AIM system are accurate. The issue is one of reporting discrepancies rather than one of payment discrepancies. That said, FSSA acknowledges that the reporting issue is a concern to all parties involved and that EDS is actively pursuing a remedy that will address the reconciliation matter.

FINDING 2005 – FSSA-27, INCORRECT RATE APPLIED FOR MANAGED CARE

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Hospital Insurance Program (SCHIP), Medical Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Pat Casanova and Jeanne LaBrecque
Title of Contact Person:	Director of SCHIP, and Director of OMPP
Phone Number:	317-234-2182 and 317-234-2407
Compliance Requirement:	Allowable Costs, Cost Principles
Internal Control:	Reportable Condition

Audit Response:

OMPP will conduct reviews of the 2005 capitation rates paid compared to the rates approved by CMS. Any discrepancies will be addressed. The results and adjustments will be reviewed and approved by the Medicaid Director.

Going forward, to prevent similar errors from occurring in the future, OMPP will immediately develop and implement controls in the process. The controls will require comparison of the rates at each step of the process to the original source document which was approved by CMS to eliminate potential errors in data entry. These steps include each stage between the rate approval from CMS, the rates submitted to EDS, rates loaded into AIM, and rates from payments to the MCOs. The process will also include a review of the rates included in the MCO contract to ensure compliance with the CMS approved rates. The procedures will be documented and the results will be sent to the Managed Care Director.

FINDING 2005 – FSSA-28, MANAGED CARE PAYMENTS NOT SUPPORTED

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Hospital Insurance Program (SCHIP),
Medical	Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Pat Casanova and Jeanne LaBrecque
Title of Contact Person:	Director of SCHIP, and Director of OMPP
Phone Number:	317-234-2182 and 317-234-2407
Compliance Requirement:	Allowable Costs, Cost Principles
Internal Control:	Reportable Condition, Material Weakness

Audit Response:

The Office of Medicaid Policy and Planning (OMPP) Managed Care staff reviews summary level totals on the monthly financial reports that are prepared by EDS. However, the summary level totals do not contain sufficient detail in order to verify the rates paid. EDS has done preliminary analysis regarding the missing reports and misaligned coverage periods. During the period between December 2004 and February 2006, EDS experienced difficulties with the "On-Demand" reporting program. Most regularly run reports reside here so that they are available for viewing by EDS and OMPP staff. The December and February reports have been corrected. Further analysis will be done on the January issue to determine the cause and correct and/or reconstruct the reports. At the conclusion of this analysis, it is anticipated that the questioned costs will be identified, documented and resolved. If not, adjustments will be made if appropriate.

Going forward, OMPP Managed Care Director will collaborate with EDS, OMPP's fiscal agent, to develop and implement controls for this process to monitor the capitation payments issued on a monthly basis.

FINDING 2005 – FSSA-29, MANAGED CARE DELIVERIES

Federal Agency:	Department of Health and Human Services
Federal Program:	Medical Assistance Program
CFDA Number:	93.778
Auditee Contact Person:	Jeanne LaBrecque
Title of Contact Person:	Director of the OMPP
Phone Number:	317-234-2407
Compliance Requirement:	Allowable Costs, Cost Principles
Internal Control:	Reportable Condition

Audit Response:

The delivery payment reports currently only list the member's identification number and the provider number, making it difficult to definitively track the triggering shadow claim to the payment. The date of birth and the claim number are not provided for further reference. There is a manual process to identify the claim in question. The process is quite involved and it is not feasible to track every delivery payment. In order to build this capability into the delivery payment process, a change to the AIM system will be required. OMPP's Managed Care Director will review the issue in greater detail, and initiate a change order if necessary.

FINDING 2005 – FSSA-30, MEDICAID BANK RECONCILIATIONS

Federal Agency:	Department of Health and Human Services
Federal Program:	State Children's Hospital Insurance Program (SCHIP),
Medical	Assistance Program
CFDA Number:	93.767 and 93.778
Auditee Contact Person:	Pat Casanova and Jeanne LaBrecque
Title of Contact Person:	Director of SCHIP, and Director of the OMPP
Phone Number:	317-234-2182 and 317-234-2407
Compliance Requirement:	Allowable Costs, Cost Principles
Internal Control:	Reportable Condition, Material Weakness

Audit Response:

The bank reconciliation process is contracted. EDS prepares a summary document to verify payments made by the AIM system match the bank statement for total expenditures. FSSA Finance will develop a process to verify the match and perform the verification process. FSSA will ensure the summary document reconciles to the FIN-8000 financial control summary reports issued weekly by EDS.

FSSA intends to hold the contractor, EDS, accountable to ensure these reconciliations are conducted accurately and timely.

Once the reconciliation is delivered to FSSA Finance, normally 30 days following the end of the month to be reviewed, the reconciliation will be verified by FSSA staff. Once the verification is complete, the Director of FSSA Finance will send an acceptance of the reconciliation to EDS. In addition, FSSA Finance will conduct a detailed review of all reconciliations annually.



April 27, 2006

Bruce Hartman, State Examiner
State Board of Accounts
302 West Washington Street
4th Floor, Room E418
Indianapolis, IN 46204

Re: **OFFICIAL RESPONSE**

Audit Period: 07/01/04 through 06/30/05

Dear Mr. Hartman:

Please find attached the Department of Workforce Development's (DWD) corrective action plan for the management findings in the audit report for the period from July 1, 2004 through June 30, 2005. We believe this plan, and, specifically the actions therein, have resolved these findings. As usual, the Board of Accounts audit team performed this engagement in a professional and cooperative manner and we appreciate the assistance of your staff in completing this audit.

Please contact me at 233-1463 if you have questions about any of our planned actions. Thank you.

Sincerely,

Monty W. Combs
Deputy Commissioner/Controller

Attachment

MC/SD

266

Mitchell E. Daniels, Jr., *Governor*
Ronald L. Stiver, *Commissioner*

10 North Senate Avenue
Indianapolis, IN 46204-2277
www.workforce.IN.gov

Phone: 317.232.7670
Fax: 317.233.4793

An Economic Development Partner

Corrective Action Plan
For Findings in the Audit Report for the period July 1, 2004 through June 30, 2005

FINDING 2005-DWD-1 Inaccurate Reporting

Federal Agency:	Department of Labor
Federal Program:	Unemployment Insurance
CFDA Number:	17.225
Auditee Contact Person:	Monty Combs
Title of Contact Person:	Deputy Commissioner of Finance and Administration/Controller, DWD
Phone Number:	317-233-1463
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition

During our audit of the ETA 581 Contribution Operations report prepared for the Unemployment Insurance grant, we found inaccurate amounts submitted. The amounts for the electronic ETA 581 Federal report are extracted from the Department of Workforce Development's Cadet Mainframe System with the exception of the beginning balance. The federal reporting system automatically posts the prior quarter's ending balance to the ETA 581 as the current quarter's beginning balance and does not allow for changes to this amount.

We found that periodically the Mainframe does not correctly report the current quarter's beginning balance as the previous quarter's ending balance. According to the individual who submits the federal report, there is a flaw in the Mainframe reporting system. This system flaw was first documented in 1998; however, steps were not taken to correct the problem. Even though there is a known flaw in the agency's system, the individual makes adjustments to the ETA 581 report so that it will match the agency's Mainframe balances. As mentioned before, changes cannot be made to the ETA 581's beginning balance, so the individual makes adjustments to the contribution amounts on the submitted federal report, in order to have that report's ending balance match the ending balance as reported by the Mainframe report.

Our view of the ETA 581, for the quarter ended March 31, 2005, found that a positive adjustment of \$8,448 was made to the Liquidated amount for the Contributory Employer's Receivables. Also on the same report, a \$97 positive adjustment was made to the Liquidated amount for the Reimbursing Employers' Receivables. These adjustments implied that DWD received funds from employers that it did not. This resulted in DWD incorrectly reporting its receivables for both Contributory and Reimbursing Employers to the federal government.

While the adjustments noted were immaterial, DWD should not make adjustments to the federal report in order to have it agree with the incorrect Mainframe report. The Mainframe report as a whole should be investigated by DWD. Correct contribution amounts should always be submitted on the ETA 581 report.

29 CFR 97.20 provides that fiscal control and accounting procedures of the state must be sufficient to permit preparation or the required reports. Additionally, effective control and accountability must be maintained for all grant assets.

We recommend that the Department of Workforce Development investigate the Cadet Mainframe System and determine the reason for the incorrect reporting of the quarterly beginning balance.

Corrective Action Plan:

The Oversight Director is investigating the cause of the errors in the report in question. He is following the steps listed below:

- A. The initial observation is that on a couple of the reports where errors occurred, the report was run at 2:00 am on the last day of the month. This day was not a work day for the State, however, it was a banking day, so the information may have changed due to bank record uploads. He has requested that the prior quarter reports be re-run to see if there are changes to the report due to timing.

- B. In case timing is not the issue, we are trying to identify the source data for the information on the report to compare the totals so that we can identify from what line(s) the errors are coming. Once this is done, we will look at changes in definitions from the Department of Labor that occurred in 1997/98 to assist us in identify a potential programming problem.
- C. If the situation is caused by a programming problem, in order to process future reports, DWD will compare the source documentation to the report to identify where adjustments must be made to correct the report from the system, until the programming problem can be fixed.

Corrective Action Plan
For Findings in the Audit Report for the period July 1, 2004 through June 30, 2005
(Continued)

FINDING 2005-DWD-2 Report Monitoring

Federal Agency:	Department of Labor
Federal Program:	Unemployment Insurance
CFDA Number:	17.225
Auditee Contact Person:	Monty Combs
Title of Contact Person:	Deputy Commissioner of Finance and Administration/Controller, DWD
Phone Number:	317-233-1463
Compliance Requirement:	Reporting
Internal Control:	Reportable Condition

The Indiana Department of Workforce Development (DWD) is required to submit ten reports to the federal government for the Unemployment Insurance grant. During our review of these reports, we found that two of these reports were not reviewed by an independent party prior to submission to the Department of Labor. The ETA 227 Overpayment Detection and Collection Activities report and the ETA 581 Contributions Operations report are prepared and submitted without any independent review. The lack of review is a control weakness, which could result in the improper reporting of financial information to the federal agency.

28 CFR 66.20 provides that a State's financial management systems must maintain accurate, current and complete disclosure of the financial results of financially assisted activities. Additionally, effective control and accountability must be maintained for all grant assets.

We recommend that DWD implement procedures to review the ETA 227 Overpayment Detection and Collection Activities report and the ETA 581 Contributions Operations report prior to submission to the US Department of Labor. The review should be completed by someone independent of the preparation and submission functions.

Corrective Action Plan:

Effective with the ETA 227 Overpayment Detection and Collection Activities report due 4/28/06, the Director, UI Integrity will review this report prior to submission to the US Department of Labor. The Director of UI Integrity will initial and date the review on the face of the report.

Effective with the ETA 581 Contributions Operations report due 2/20/06, the Oversight Director will review this report prior to submission to the US Department of Labor. The Oversight Director will initial and date the review on the face of the report.

In addition to the reports listed above, the DWD Analysis and Reconciliation Unit will conduct a review ensure that, in the future, all reports are reviewed by someone independent of the preparation and submission functions prior to submission of the reports.



MITCHELL E. DANIELS, Jr., Governor
STATE OF INDIANA

DEPARTMENT OF HOMELAND SECURITY

J. ERIC DIETZ, EXECUTIVE DIRECTOR

*Indiana Government Center South
302 West Washington Street
Indianapolis, IN 46204
317-232-3980*

April 17, 2006

State Board of Accounts
302 Washington St., Room E418
Indianapolis, Indiana 46204-2765

Subject: Corrective Actions to Address Public Assistance Grant, July 1, 2004 to June 30, 2005 SBA Audit Findings

Your recent audit of the US DHS Public Assistance Grant to IDHS for the period July 2004 to June 2004 found that the Indiana Department of Homeland Security (IDHS) Assistant Controller had received some OMB Circular A-133 audit reports from subgrant recipients but had not forwarded them to the program director. It also found that the Assistant Controller did not have a tracking mechanism in place to determine if the agency had received all required A-133 reports. The Audit recommended that IDHS implement a process to ensure that all required A-133 reports are received and to ensure that IDHS follows up on any findings in those reports.

To address these problems, I have directed appropriate officials from the Indiana Department of Homeland Security to take the following actions:

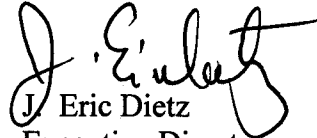
a. The IDHS Fiscal Services Branch Chief will create and maintain a separate spreadsheet for each State Fiscal Year to serve as a tracking mechanism to assure that the IDHS Fiscal Services Branch Chief receives all required OMB Circular A-133 audit reports. The spreadsheet will list every sub-recipient along the left hand side, regardless of the amount of the agreement. Along the top, columns should reflect the EDS number of the subgrant agreement, the amount, the date an audit is received and reviewed, Audit Findings (Y or N), and the date a letter is sent to the Subgrant Recipient soliciting their plan for corrective actions on any findings.

b. The IDHS Fiscal Services Branch Chief will request an audit per OMB Circular A-133, Subpart D, Section 400 (d) (d) by the State Board of Accounts of any sub-recipient agreement for \$500,000 or more in federal awards.

c. After considering the response of the subgrant recipient to the audit, the Director of the Support Division of IDHS will issue a management decision in accordance with OMB Circular A-133, Subpart D, Section 405 on any audit findings stating whether or not the

audit finding is sustained, the reasons for the decision and the expected auditee action to repay disallowed costs, make financial adjustments or take other action.

Sincerely,



J. Eric Dietz
Executive Director

Indiana Department of Homeland Security

CC:
George Thompson
Nancy Stevens

File: gt/md/ Letter JED to SBA 4-17-06